
Price of the Brick (& Other Construction Inputs) Going Up

Sage Economics

Tue, Dec 2, 2025

Price of the Brick (& Other Construction Inputs) Going Up

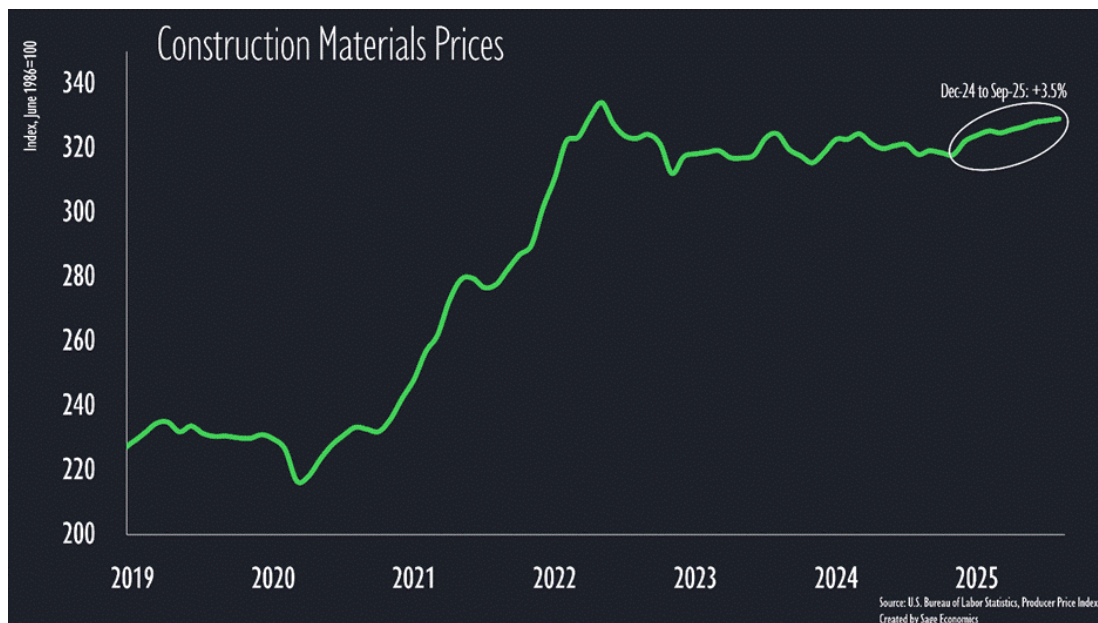
Construction Trend Tuesday (#30)

ZACK FRITZ



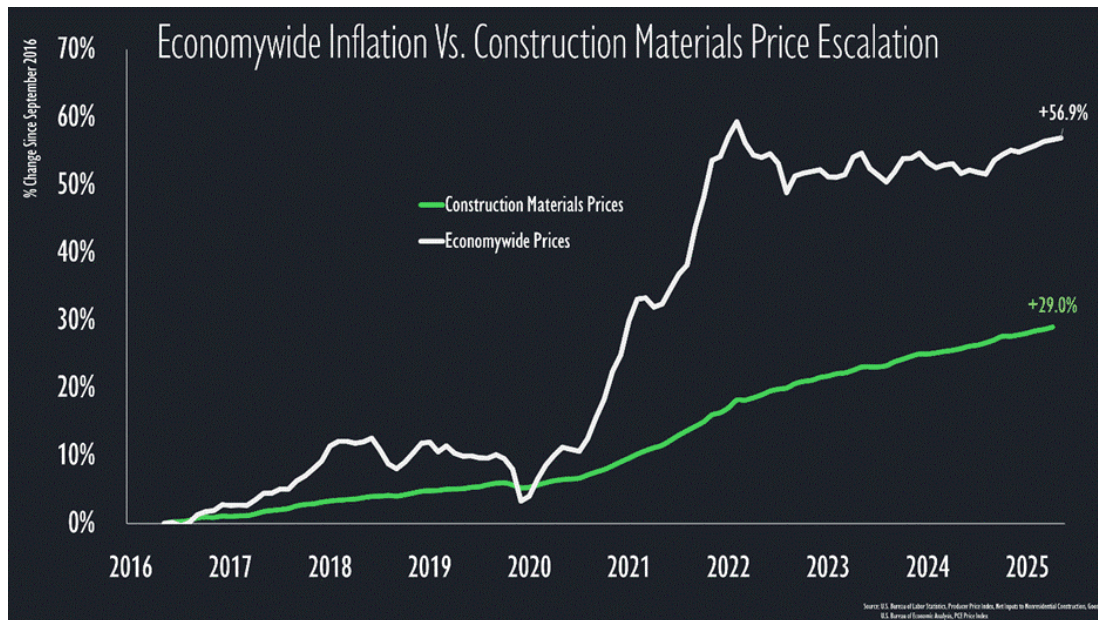
Construction Trend Tuesday covers one (hopefully) interesting industry trend in a quick, two minute read. You can access the archive of [CTT posts here](#).

Construction materials prices have risen 3.5% since the end of 2024, ending a two-year period of much-needed stability.



Sure, that's not an earthshattering increase, especially compared to what happened from 2020-2022, but it's not ideal, either.

First, construction materials prices have risen nearly twice as fast as economywide prices over the past decade, and renewed escalation will further strain project budgets. This is, of course, made worse by stubbornly high borrowing costs.



Second, this increase has occurred at a time when construction spending is already declining. The rise in materials prices would be worse if the industry

wasn't contracting, thereby constraining demand for inputs. This is increasingly a stagflationary U.S. construction economy.

Third, tariffs are certainly playing a big role here, making imported materials more expensive and giving domestic producers greater pricing power. It's nearly impossible to predict how tariffs will affect prices throughout a supply chain—too many economic actors, each eating costs or passing them on in their own discreet way—and that uncertainty is compounded by the fact that our trade policy is ever changing.

What's Next

This week brings us some private sector job data, an early peak at December's consumer confidence, and an important update on the manufacturing sector. We'll cover that and a whole lot more in Week in Review, our every-Friday post that covers all the economic news and data in a breezy, five minute read.



On Errors, Skepticism, & Good Policymaking

Sage Economics

Thu, Dec 4, 2025

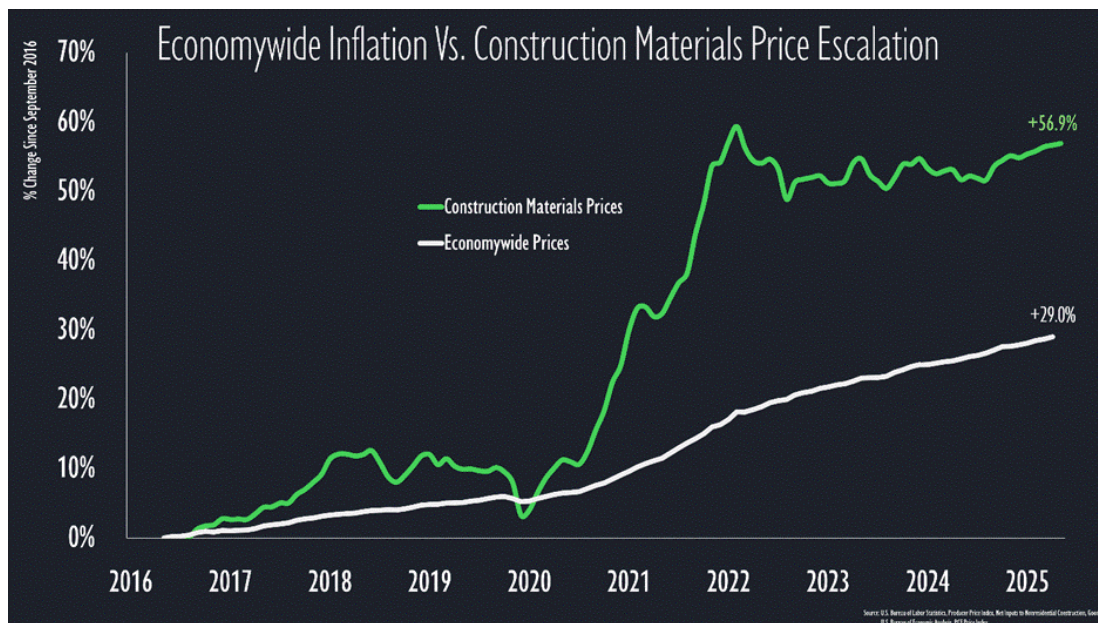
On Errors, Skepticism, & Good Policymaking

Turns out I'm not entirely infallible

ZACK FRITZ



I mislabeled a graph in this week's [Construction Trend Tuesday](#). The corrected version, included below, is now also in the online version of the post.



The downside: I don't like making mistakes. Sorry about that!

The upside: it turns out a lot of you actually read this stuff. Many thanks to the dozens of readers who like instantly pointed out the error.

While I'm getting things off my chest

A few weeks ago I shared a chart showing that, according to the National Association of REALTORS, the median homebuyer age had risen to 59 years. That number is shockingly high, so high that I put a bunch of exclamation points on the graph's data label.

Which, in hindsight, was a sign that I should have been skeptical.

Turns out, NAR's number is almost definitely wrong. More credible surveys, like the Census Bureau's American Community Survey or the New York Fed's Consumer Credit Panel, show much lower homebuyer ages.

How did NAR get such a high estimate? They mailed out a 120-question survey to 173,250 recent homebuyers. It had a response rate of 3.5%, and I'm guessing that older homeowners are more likely to respond to mail surveys.

The size and response rate of the NAR survey compares poorly to the ACS, which is sent to 3.5 million homes each year, about 95% of whom respond.

I'm usually pretty good about vetting what I share

For instance: In October, The NYT published a story titled In Trump-Friendly Iowa, the President's Policies Have Hit Hard. It got a lot of attention online and, in fairness, does make some valid points. Tariffs have hurt Iowa's agriculture and manufacturing industries, both of which account for a relatively large share of the state's economy.

Before sharing the article, I dug into the data on Iowa's economy and decided they weren't doing quite so bad. As a result, I didn't include it in the newsletter.

That turned out to be a good idea. The initial estimate had Iowa's GDP shrinking at a 6.1% rate in the first quarter, but that was later revised to just a 1.2% contraction. Iowa's growth then bounced back with strong 3.7% annualized growth in the second quarter.

[Note: this isn't to say that Iowa is necessarily doing well. Their economy is having some very real struggles at the moment.]

And another time I was appropriately skeptical

Challenger, a staffing/career coaching firm, publishes monthly data on announced job cuts. That data showed a seismic increase in job cuts in October. Anirban mentioned that as a cause for concern in a recent Week in Review, and he wasn't alone. There were tons of headlines to the effect of October monthly job cuts surged to a 22-year high.

To Anirban's credit, he also mentioned that I don't put much weight on the Challenger data (or, you know, to *my* credit). That was the right call; more recent unemployment insurance claim data show that there was not, in fact, a historic surge in layoffs during October.

And sure enough, this morning Challenger announced that job cuts declined by more than 50% in November.

Not that I put any weight on their November estimate, either. Challenger tracks *announced* job cuts, and most companies don't announce when they're laying people off. Through the first 11 months of 2025, Challenger has

counted nearly 1.2 million job cuts. That might sound like a lot, but BLS data shows that about 1.7 or 1.8 million people are laid off *every month*.

A final note that has nothing to do with the rest of this post

The One Big Beautiful Bill Act (I can't even type that with a straight face) restores a provision that allows companies to write off the entire value of some capital investment during the year they make it. While the OBBBA was passed in July, they made the new depreciation law retroactive to January. A recent federal report estimates that businesses will claim about \$16 billion in retroactive tax breaks as a result.

I've seen some complaints that backdating the change is a corporate handout. I disagree.

This is good policy making. By backdating the change, it establishes that similar tax breaks will be retroactive in the future. If that weren't the case, businesses would start to hold off on investments if they thought a policy change was imminent. Spending would stall and then surge, and the past few years have shown us how damaging that can be.

What's next?

This week has had a lot of data releases, few of which were particularly upbeat. Anirban will cover all of them in Week in Review, our every-Friday post that gives you everything you need to know about the economy in a breezy, five-minute read.

Low Week in Review

Sage Economics

Fri, Dec 5, 2025

Low Week in Review

Inflation, job losses, & more

ANIRBAN BASU



Michael and Susan Dell (of Dell computer fame) donated \$6.25 billion—that's billion with a "b"—to fund Trump Accounts (an account a parent can open for a child born between 2025 and the end of 2028 that will receive \$1,000 in seed funds from the federal government).

The Dell donation will add an additional \$250 to the accounts of children living in zip codes with median incomes below \$150,000. Put another way, the Dells gave \$250 to 25 million children.

Sage Economics will be making a similar donation as soon as we get just a few more paid subscribers (*similar*, not exact, and invested in the Oriole's starting rotation).

On the data front, this week brought us updates on the manufacturing and service sectors, private sector job losses, inflation, and a lot more.

Monday

ISM Manufacturing PMI

The manufacturing sector contracted for a 9th consecutive month in November, according to this [survey of industry managers](#). No surprise: the [comments from respondents](#) have a lot to do with tariffs and “trade confusion.”

The Beige Book

The labor market is struggling, according to this [Fed-published collection of anecdotal info](#). A key quote: “Despite an uptick in layoff announcements, more Districts reported contacts limiting headcounts using hiring freezes, replacement-only hiring, and attrition than through layoffs.” And that’s exactly what we observe – employers are using attrition to shrink payrolls. My concern is that at some point hiring will remain soft while layoffs accelerate. That hasn’t happened yet.

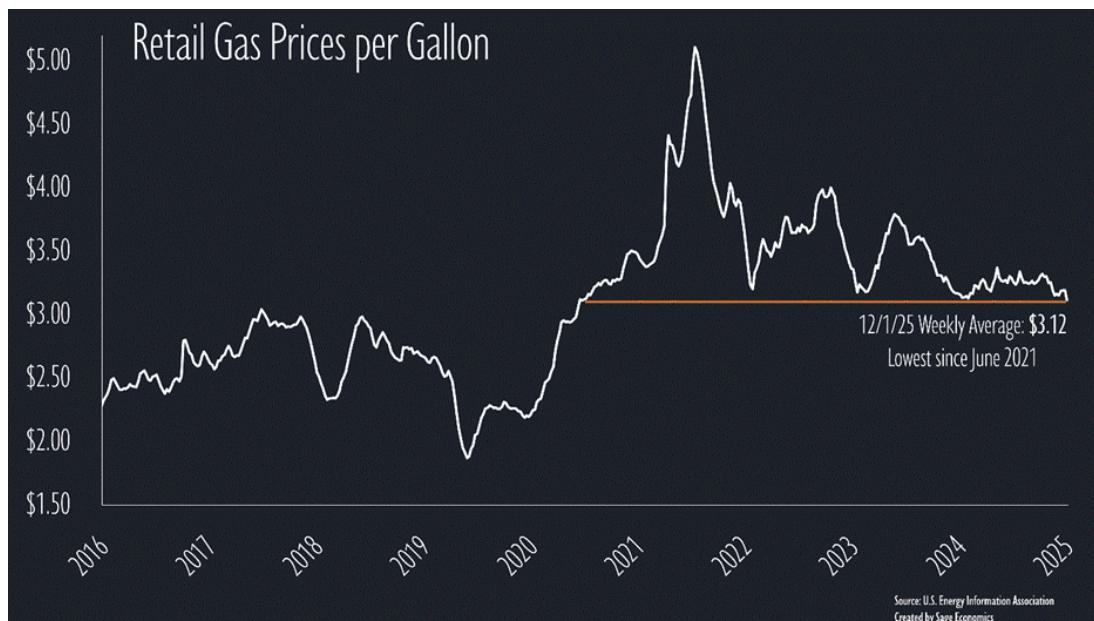
Tuesday

TSA Checkpoint Travel Numbers

Travel volumes bounced back over the holiday weekend, according to [TSA data](#), and are roughly back in line with 2024 levels. This data can be a little wonky around this time year because of the timing of the holidays, but this series looks far less concerning than it did one week ago.

Oil Stuff

[Gas](#) prices fell to a low, low, low, low, low, low \$3.12/gallon (meant to be read to the rhythm of Flo Rida’s 2007 hit, “Low”). That’s the lowest average price since the first week of June 2021.



Diesel prices, which are not deserving of a single “low” or “boots with the fur,” fell to \$3.76/gallon, but are still up \$0.20/gallon over the past year.

November has been a record setting month for oil production, with the week ending Nov. 28 setting yet another all-time high.

Wednesday

ADP Employment Report

The private sector lost 32,000 jobs in November, according to payroll processing firm ADP. By industry, this was right in line with what we’ve seen all year: healthcare and leisure and hospitality adding jobs while every other sector loses them. Manufacturing had a particularly bad month, losing another 18,000 jobs. Manufacturing is in recession. I would argue the same is true for construction and agriculture.

Notably, ADP estimates that companies with 49 or fewer employees lost 120,000 jobs for the month, while companies with 50+ employees gained jobs.

While this is ultimately less important than the BLS jobs report we’ll get later in December, it’s yet another indication that hiring has slowed to a crawl. Not a great time to be a recent graduate.

ISM Services PMI

The service sector expanded yet again in November, according to this survey of industry managers. While the rate of expansion is slowing, we'll take what we can get given the broader state of the economy. The survey indicates that services prices are still increasing too quickly, albeit at a slower pace than they were over the past several months. Comments from respondents were less upbeat than the data would suggest.

Industrial Production

This measure of how much U.S. manufacturing, mining, and utilities produce inched up 0.1% in September, which was entirely due to a large increase in utilities production. Total IP is up 1.6% over the past year, and while that's not spectacular, it's certainly good enough—IP is one of the six indicators the NBER considers when calling a recession or lack thereof.

Mortgage Applications

Mortgage applications fell slightly and, while up from the same time last year, are still far too low, low, low . . . you get it.

Thursday

Jobless Claims

Initial jobless claims plunged to 191,000 during the week ending Nov. 29th. That's suspiciously low (enough is enough), which might have something to do with Thanksgiving, but set those suspicions aside. Our most real time labor market indicator remains in great shape.

Continued claims for unemployment insurance fell but are drifting higher compared to last year. Still nothing to worry about here.

Mortgage Rates

Mortgage rates fell slightly, with the average 30-year fixed down to 6.19%. Is that a big improvement from 7%+ rates in January? Yes, but it's still too high for homebuying to really rebound.

Friday

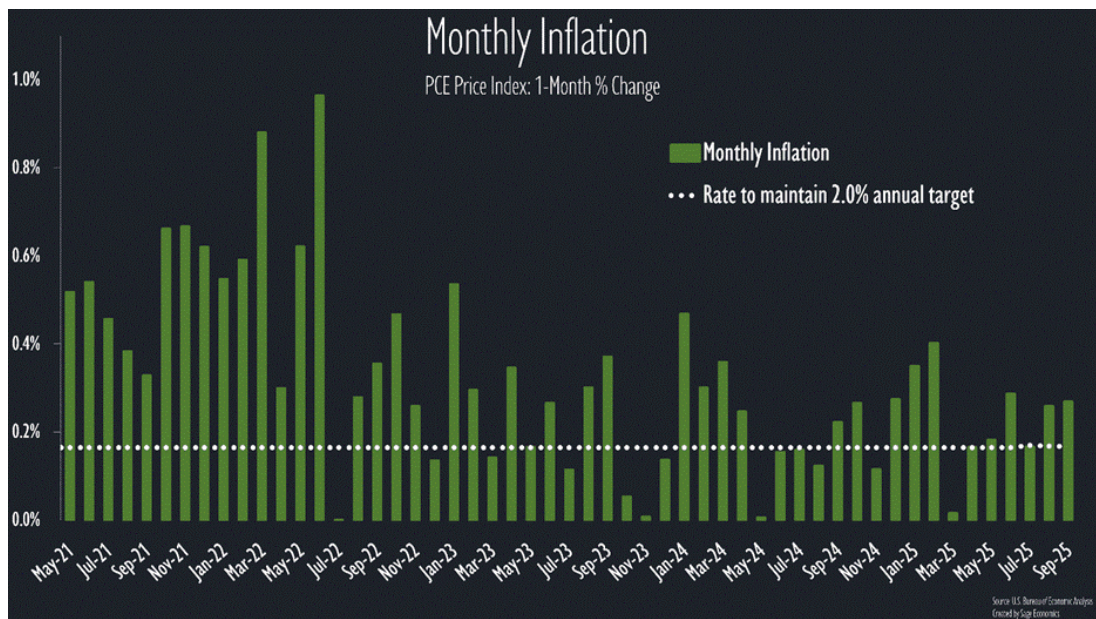
University of Michigan Consumer Sentiment Index

Consumer sentiment inched higher in early December, but just barely, and it's still down 38% over the past year. Which is to say, consumers are not feeling particularly upbeat about the economy.

PCE Price Index (Inflation)

The Fed's preferred measure of inflation rose 0.3% in September, while the core portion (excludes food and energy) rose 0.2%. Goods prices accounted for most of the increase, rising 0.5% in September.

Both the overall and core indexes are up 2.8% year over year, and as you can see below, prices are still increasing too quickly to get back to the Fed's 2% annual target.



So inflation was running hot in September, but how much does that really tell us? It's December, and we're still a few weeks away from getting November inflation data (note that we won't get inflation data for October).

Income & Spending

Personal income increased 0.4% in September, which is pretty quick, while personal spending increased 0.3%. Notably, spending on goods was flat for the month, with spending on durable goods (things that last at least three years) falling sharply. As tariffs drive up the cost of physical things, it makes sense that some spending would shift toward services.

What do we make of this? Not much. The sky wasn't falling in September, but that was ages ago.

Links of the Week

America's mayors are right to support small business ([Noahpinion](#))

America is Flying Blind on Immigration ([Apricitas Economics](#))

How to actually feed America ([Slow Boring](#))

Final Thoughts

After this week, my outlook for the economy is: *Worse*

That ADP employment report was unnerving. I also spoke with some farmers this week, and the news on that front is not good between soybean, corn, and dairy dynamics. The economy should be fine through the first half of 2026 (AI spending boom, investments in energy production and distribution, large federal tax refunds, falling interest rates, and still strong corporate earnings), but I'm nervous about what happens thereafter.

Construction Job Losses Accelerate

Sage Economics

Tue, Dec 9, 2025

Construction Job Losses Accelerate

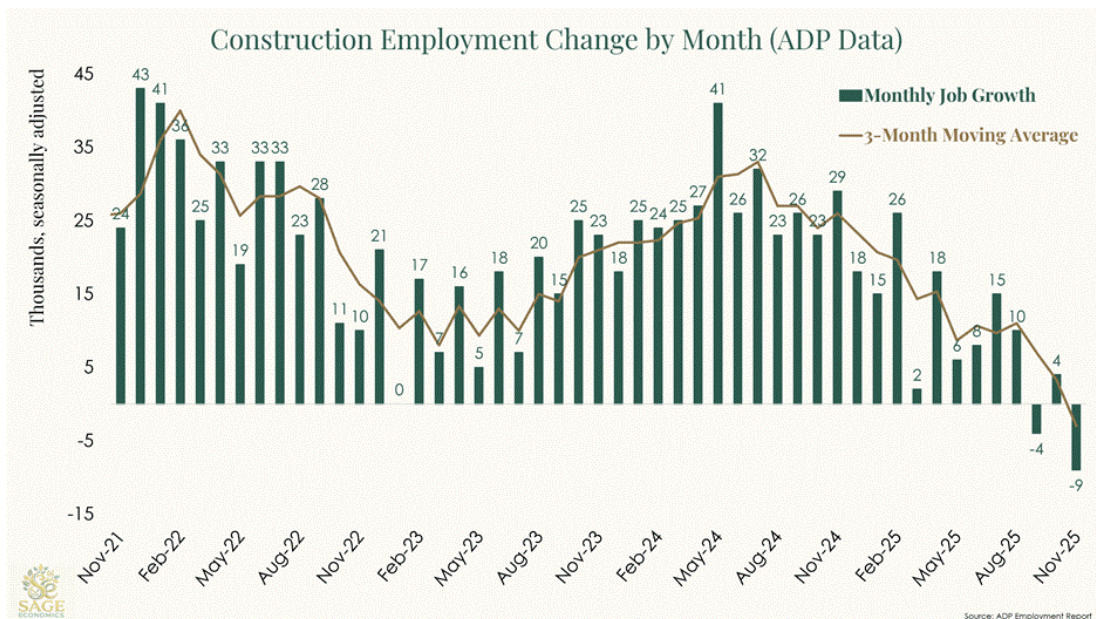
Construction Trend Tuesday (#31)

ZACK FRITZ AND ANIRBAN BASU



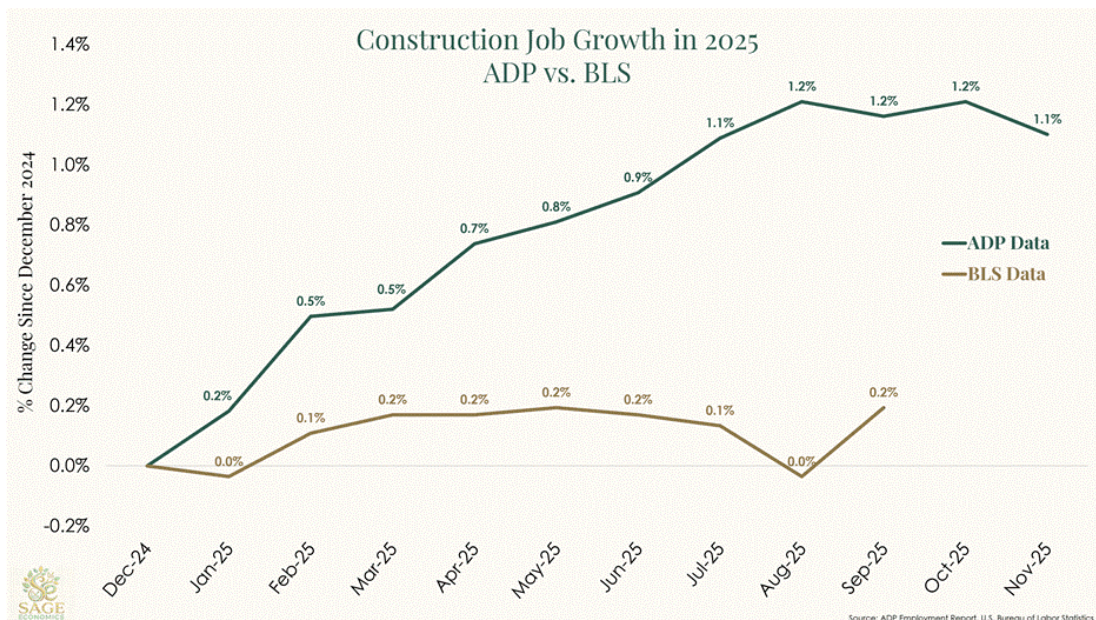
Construction Trend Tuesday covers one (hopefully) interesting industry trend in a quick, two minute read. You can access the archive of [CTT posts here](#).

Private construction employment declined by 9,000 jobs in November, according to [payroll processing firm ADP](#). The industry, which did not experience any monthly employment declines during a 49-month span stretching from August 2021 to August 2025, has now lost jobs in two of the past three months.



That's according to ADP. The more focused-upon Bureau of Labor Statistics' data are arguably worse (and more outdated because of the shutdown), indicating that the construction industry added just 2,000 jobs from April to September.

As you can see below, the BLS data show significantly slower construction job growth in 2025.



What do we take from this? The construction industry is shrinking. Spending data indicate the same thing. That's not a particularly new development.

though it is an upsetting one, and conditions are unlikely to improve unless interest rates fall and policy becomes less volatile.

What's Next

This week brings us job opening, hiring, and firing data for October, and update on small business optimism, and some Fed projections. We'll cover that and a whole lot more in Week in Review, our every-Friday post that covers all the economic news and data in a breezy, five minute read.

Tiny Car Week in Review

Sage Economics

Fri, Dec 12, 2025

Tiny Car Week in Review

Tourist DNA, job openings, & more

ZACK FRIT



This week brought us economic policy news on fuel efficiency standards, chip exports to China, and tourist visa requirements plus updated data on job openings, small business optimism, and a lot more.

Monday

Trump Admin Proposes Rollback of Corporate Average Fuel Economy (CAFE) Standards

Look, I've been hard on this administration's economic policies, but this?
Weakening fuel efficiency standards?

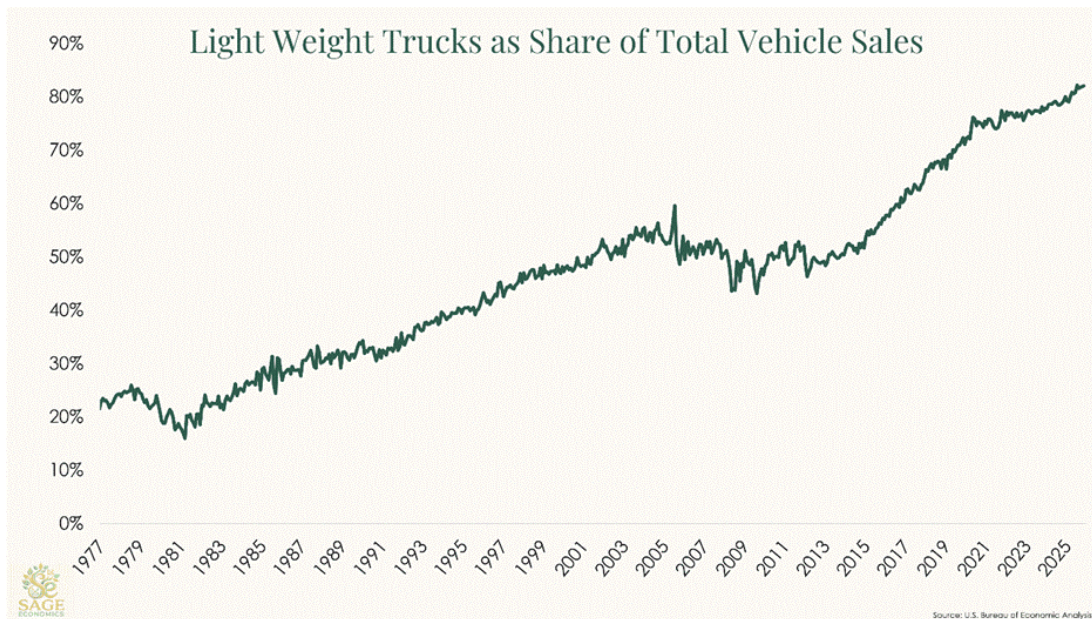
This is *great*; CAFE standards don't necessarily improve fuel economy, and they might actually make it worse.

The fuel efficiency targets introduced in 2011 scale with vehicle size, giving larger vehicles easier targets. So by making a car slightly bigger (stretching

its wheelbase, widening its track width), manufacturers get easier MPG targets.

For instance: a Mini Cooper (32 MPG combined) scores worse than an F-150 (20 MPG combined).

This has, obviously, incentivized the production of larger vehicles. In 2011, the lightweight truck category accounted for less than half of all vehicle sales. That's now over 80%.



Yes, vehicle bloat (also known as Autobesity.) is a long-term trend—Americans love big cars—but the acceleration starting in 2011 is obvious, and it's not just the share of vehicle sales: both cars and light trucks have grown larger.

This change probably won't improve environmental outcomes. Declawing a poorly designed law that creates bad incentives is different than designing an efficient law with good incentives.

What this will hopefully do is increase the number of sedans, wagons, and other small vehicles (like Kei trucks!) available for sale in the U.S.

Trump Admin Allows NVIDIA Chip Sales to China

The White House is going to let Nvidia sell advanced AI chips to China, with the U.S. government taking 25% of the revenues from those sales.

For Nvidia, this is obviously great. For our national lead in AI development, this is less great.

There are still some details to be established here, including how many H200 chips— which are powerful but not our most advanced—we'll sell to China and how those sales will be approved by the government.

I don't know enough about this to have much of an opinion. China hawks and political opponents are calling the decision a grave national security threat, but that's to be expected. The consensus view seems to be that this will cut into our AI lead without fully erasing it.

More broadly, this reinforces the recent notion that the admin is not as tough on China as many expected.

TSA Checkpoint Travel Numbers

Air travel remains slightly below year-ago levels, according to [TSA data](#). This was up on a year-ago basis for most of the year. I'm not going to read too much into this just yet, but I will if it turns out to be a slow holiday travel season.

Oil Stuff

[Gas](#) prices fell to an average of \$3.07/gallon. That's the cheapest since May 2021—anyone need stocking stuffer ideas?—and is at least partially the result of historically strong domestic [oil production](#).

[Diesel](#) prices also fell and, at \$3.67/gallon, are in much better shape than a few weeks ago.

Tuesday

Job Openings & Labor Turnover Survey (JOLTS)

The Great Stay continued in October, according to this [BLS data release](#). Employees quit at the lowest rate on record (excluding March to June of 2020), and businesses hired new employees at the slowest pace since 2010 (not a great time for the economy, if you'll recall).

The layoff rate inched up to a 12-month high but is still pretty low by recent standards, roughly in line with 2019 levels.

Job openings held steady at about 7.6 million. That's high compared to the past two years but, as a share of all jobs, is about the same as before the pandemic.

Big picture? It's a weird labor market. No hiring. No quitting. Not much firing. In a word, I'd describe it as *fragile*. An increase in layoffs would cause significant damage, but nothing is irreparably broken just yet.

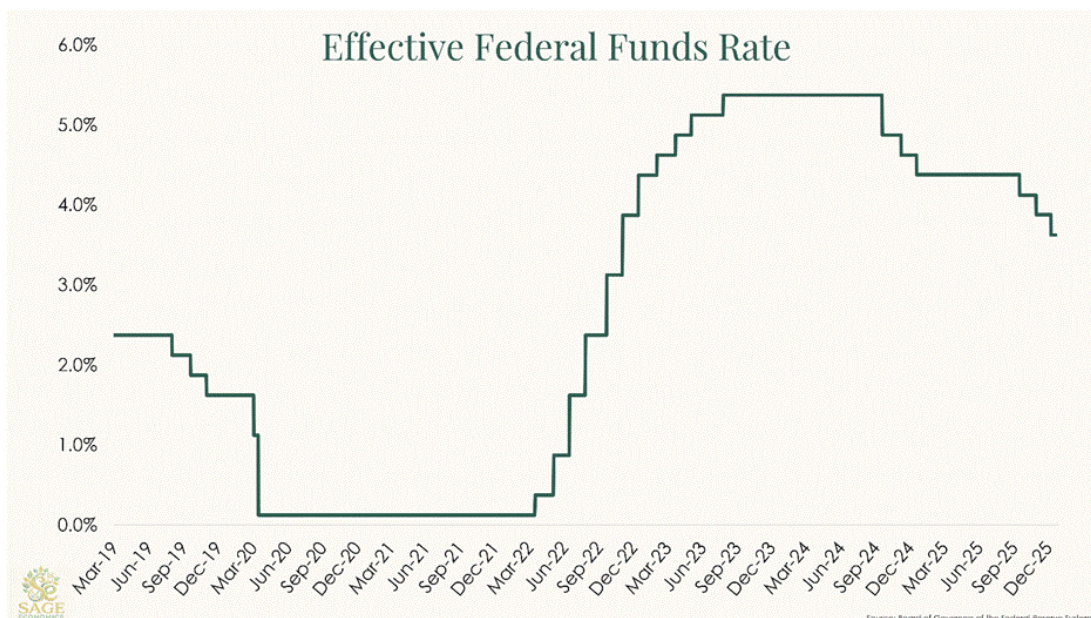
NFIB Small Business Optimism Index

This measure of small business optimism rose slightly in November, but so did small business uncertainty, with small business owners particularly unsure about making capital expenditures over the next 3-6 months.

Wednesday

Interest Rate Decision

The Fed voted to cut interest rates by 0.25 percentage points, bringing the target range of the federal funds rate to 3.5% to 3.75%. This was the third cut of 2025. Notably, three members dissented on the vote—one thought we should do a 0.50 percentage point cut, and two thought we shouldn't cut at all.



Chairman Powell's comments to the media signaled that additional cuts are unlikely in early 2026.

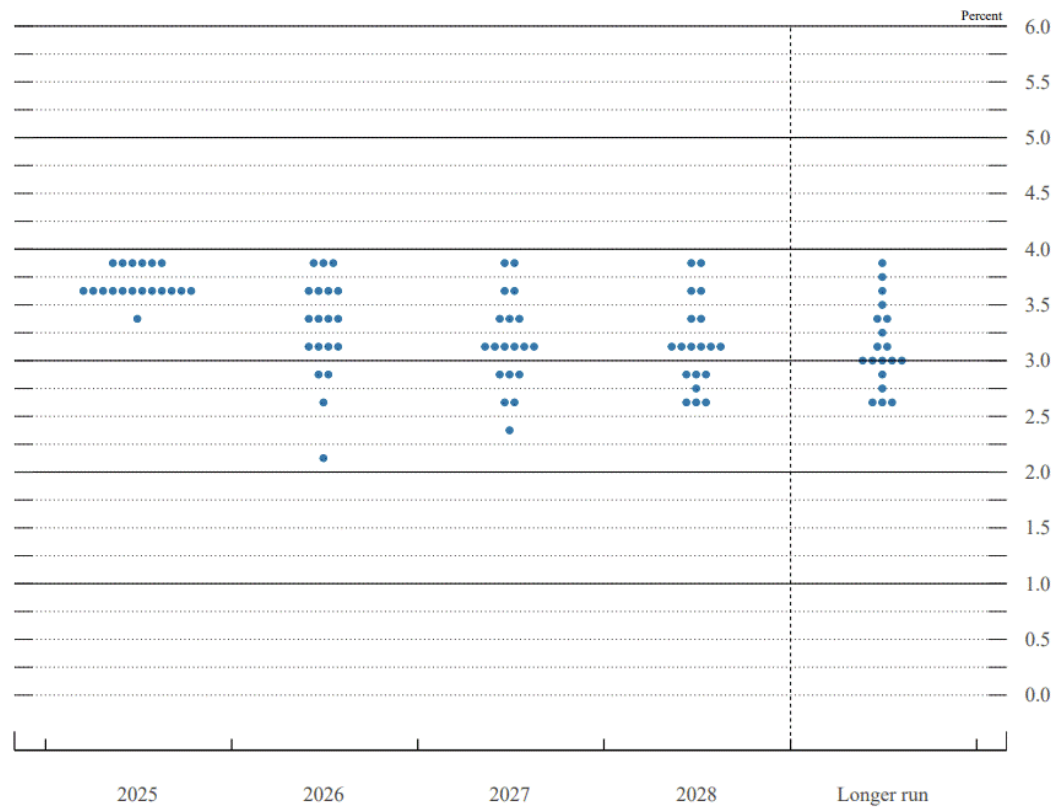
Fed Projections

The Fed also released updated economic projections. My immediate takeaway: they're pretty optimistic about next year, particularly regarding the unemployment rate. They have it ending 2026 at 4.4%. For context, it's currently at 4.4%, and started 2025 at 4.0%. Count me skeptical.

They also expect inflation to slow to 2.4% by the end of 2026 and 2.1% by the end of 2027. Barring any surprises, this is a little more plausible.

The median projection has the Fed cutting rates once in 2026, but the individual forecasts are all over the place. For instance, three participants think rates should *rise* next year, and one participant thinks rates should be cut the equivalent of *six times* next year.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



I'd bet on more than one rate cut in 2026.

Mortgage Applications

Mortgage applications increased and are up more than 20% from the same week last year. Even so, these are still too low, and that won't improve until mortgage rates fall.

Thursday

Jobless Claims

Initial jobless claims increased to 236,000 this week, but that's likely due to the same seasonal adjustments that made last week so low. The 4-week moving average stands at 216,750, which is perfectly fine. No signs of trouble here.

Continued claims for unemployment insurance fell sharply this week for the same seasonal reasons and will bounce back next week. Still, no issues.

Mortgage Rates

Mortgage rates inched higher but are still about 0.3 percentage points lower than one year ago. Even so, a 6.22% 30-year fixed is still too high.

Friday

New U.S. Tourist Requirements

A proposal filed with U.S. Customs and Border Protection would change the current visa waiver program and require visitors from close allies like Britain or France to, among other things, provide up to 5 years of social media history, the birthday, place of birth, and current addresses for any family members, and...DNA!?!

As far as I can tell, the only country that has ever tried to require a DNA sample from visitors is Kuwait, and even that law was deemed unconstitutional and overturned.

What does this have to do with economics? Aside from more broad-based tourism considerations, The U.S. is hosting the World Cup, the world's biggest tourism event, in July.

Of course, this is just a proposal.

Links of the Week

Did the CHIPS “Everything Bagel”...Work? ([Statecraft](#))

Everyone is Gambling and No One is Happy ([Kyla's Newsletter](#))

Stagnant Construction Productivity Is a Worldwide Problem ([Construction Physics](#))

Final Thoughts

After this week, my outlook for the economy is: *A little better*

Don't mistake “better” for “good.” I'm encouraged that initial unemployment claims remain low, but that's about all we learned this week. We'll have a better feel for the economy's health after next week's monumental jobs and inflation data releases.

A Bleak Jobs Report

Sage Economics

Tue, Dec 16, 2025

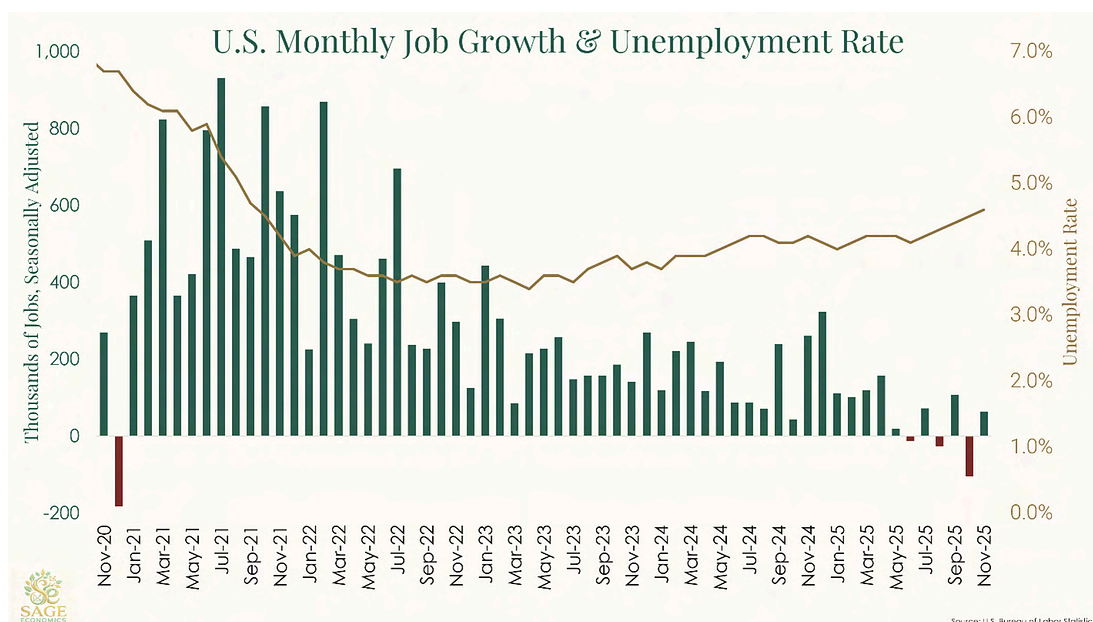
A Bleak Jobs Report

Job growth slows, unemployment rate rises

ZACK FRITZ



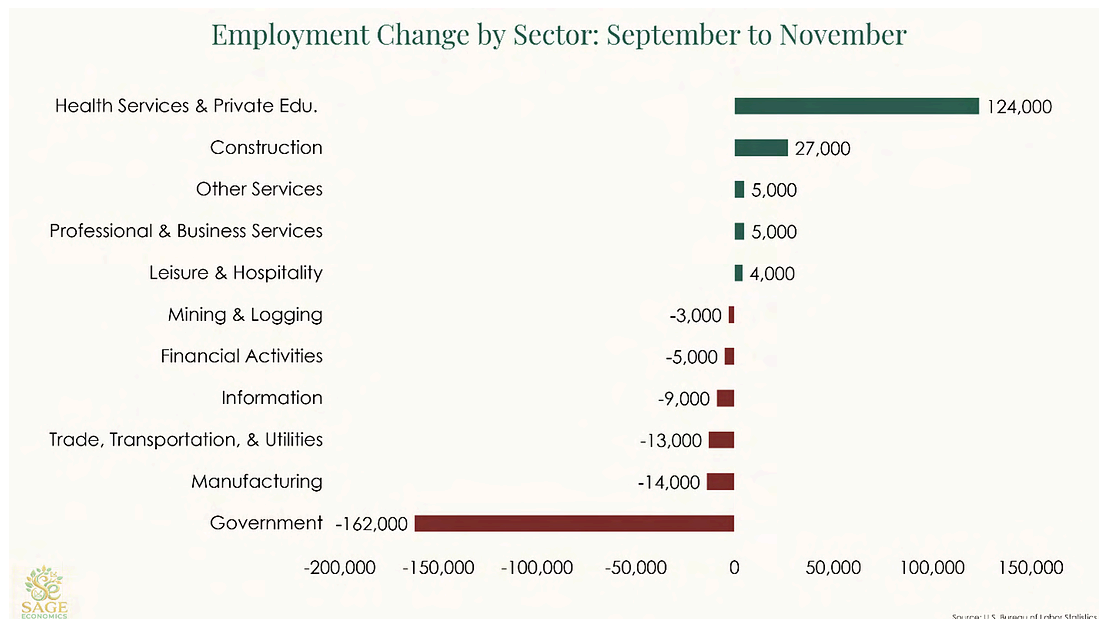
Today's jobs report covers a lot of ground, but the upshot is clear: 2025 is shaping up to be the worst year for job growth in more than 15 years (excluding 2020, obviously), and unemployment is steadily trending higher.



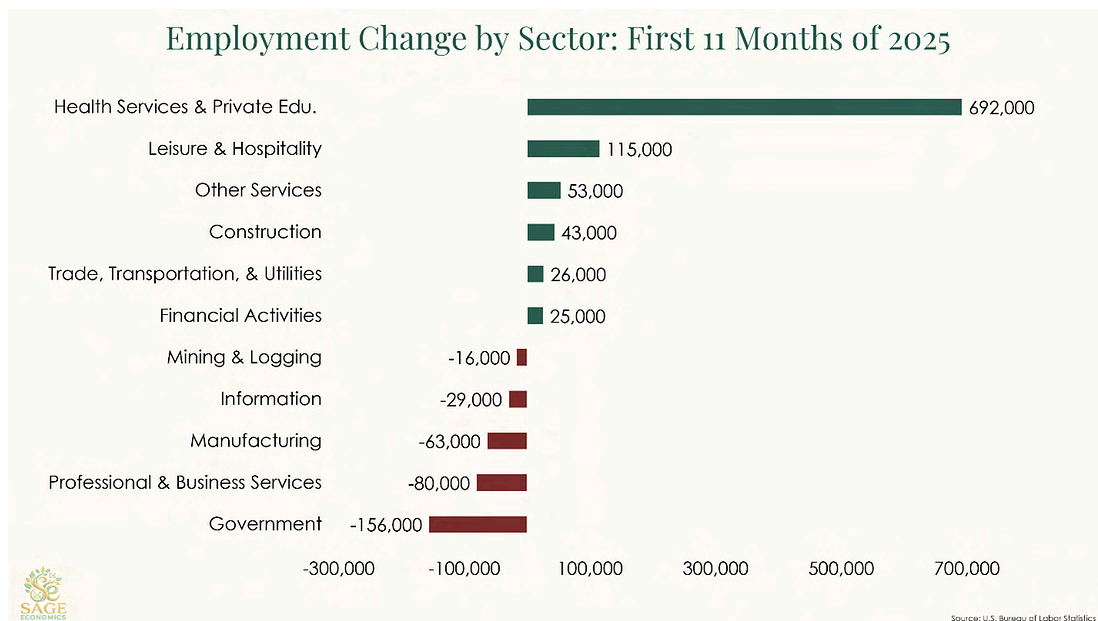
The unemployment rate rose to 4.6% in November, up from 4.4% in September (we don't get an Oct. rate), but rounding makes that increase look bigger than it actually is (4.44% in Sept. to 4.56% in Nov.).

Still, the unemployment rate is at its highest level in more than four years.

We've lost 41,000 jobs since September. That has a lot to do with a massive decline in government employment, particularly in October, which is when the DOGE incentivized retirements technically took effect.



Private sector job growth has been steadier, though unspectacular. Of course, that's largely due to the noncyclical healthcare industry. A lot of other private sector segments are struggling. Manufacturing, for instance, has lost 63,000 through the first 11 months of 2025.



There are a few reason for, well, not optimism, but maybe less severe pessimism.

The labor force grew at a healthy pace over the past few months, and the labor force participation rate rose to the highest level since April.

Construction hiring also rebounded, and you can read what Anirban had to say about that over at ABC.

We don't entirely know how the shutdown and federal worker retirements affected this data. It would be great if, come next month's jobs report, we learn that those factors made the labor market temporarily appear worse than it actually is.

For the time being, however, the labor market remains a major cause for concern.

Caveated Week in Review

Sage Economics

Fri, Dec 19, 2025

Caveated Week in Review

Janky data, jobs, inflation, & more

ANIRBAN BASU



There's a great (but explicit, if you're at work) scene at the end of the movie *Burn After Reading* in which J.K. Simmons' character says, "What do we learn?...I guess we learned not to do that again."

Given how (understandably) unsettled some of our recent data releases have been—including this week's highly anticipated jobs and inflation reports—that's precisely how I feel about this year's government shutdown.

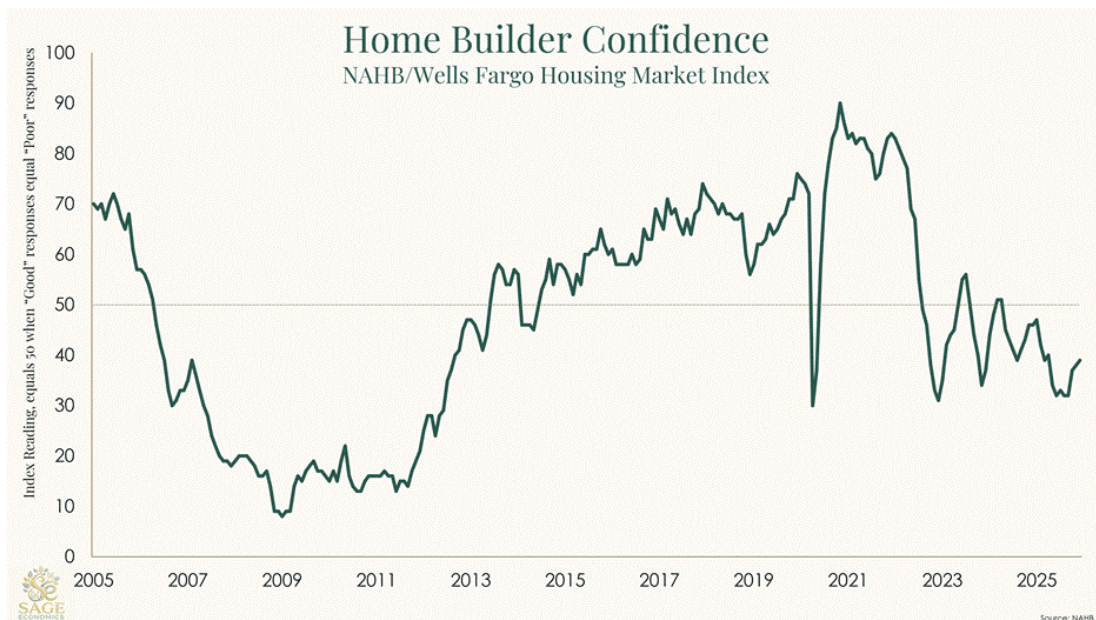
Which is to say, there are some caveats to discuss. Keep in mind that we might have another federal government shutdown in late January, and that would mean caveats on top of caveats.

Being an economist is challenging under such circumstances, but I'd rather be an economist than a New England Patriot this Sunday.

Monday

National Association of Home Builders' Housing Market Index

This measure of builder confidence increased for a third consecutive month in December but is still extremely low by historical standards. The most interesting tidbit from the release: “40% of builders reported cutting prices in December, marking the second consecutive month the share has been at 40% or higher since May 2020.” My guess is that home builders are confident because they think mortgage rates are set to fall further, below the psychological threshold of 6% on a 30-year fixed.



TSA Checkpoint Travel Numbers

Air travel bounced slightly back ahead of year-ago levels, according to TSA data. This is encouraging after some choppy numbers over the past few weeks. I can vouch for the fact that you cannot discern anything approaching impending recession from airport activity.

Oil Stuff

Gas prices fell to an average of \$3.02/gallon, the lowest rate in more than four years. Low gas prices are an economic stimulant. That, along with other upcoming stimulants—AI investment boom, One Big Beautiful Bill, corporate earnings, an accommodative Federal Reserve, and spending by wealthier families—should be enough to propel the U.S. economy through at least the first half of '26.

Diesel prices also fell. At \$3.61, they are down about \$0.26/gallon from one month ago.

Tuesday

Jobs Report

Job growth remains slow and the unemployment rate is rising, according to this [delayed November jobs report](#) (which also includes as much October data as we'll ever get). While the private sector is still growing at a slow but steady pace, most of that growth is in the healthcare sector. The federal government is hemorrhaging jobs, which is especially bad news for states like Maryland. In total, the economy has lost 41,000 jobs since September, 14,000 of which were in the manufacturing sector.

While this report doesn't quite point to an economy in recession, it does indicate that the labor market is real cause for concern entering 2026. Again, job growth might bounce back along with consumer spending early next year, but for now this has become a difficult moment for jobseekers. The unemployment rate stood at 4% to start the year. It's now 4.6%.

You can read Zack's more extensive thoughts [here](#).

Retail Sales

[Retail spending](#) was unchanged in October. While that's slightly disappointing, the lack of growth is due to a 1.6% decrease in spending at car dealerships. Excluding that category, sales grew at a healthy 0.4% for the month.

Zooming out, spending has held up well in 2025 and is 4.0% higher through the first 10 months of 2025 than during the same period of 2024. The U.S. consumer is like T-1000 from Terminator 2 —throw whatever you want at it, it just keeps going.

Wednesday

KC Fed Tariff Study

A new [study from the Kansas City Fed](#) estimates that “the economy could have added 19,000 more jobs each month, on average, from January through August 2025, without the direct tariff effects,” though they note that there's considerable uncertainty there.

Is this definitive? No, but it certainly aligns with current economic data and sentiment.

Mortgage Applications

Mortgage applications increased about 5% this week. While up substantially from the same week last year, these are still painfully low.

Thursday

Consumer Price Index (Inflation)

The BLS estimates that consumer prices increased just 0.2% from September to November, BUT there's a huge caveat here. Because of the government shutdown and lack of data collection for October, the BLS had to rely on interpolations, imputations, and maybe even a few other "I" words to produce these estimates.

Which is to say, these data should be viewed with a grain of salt.

Taken at face value, however, year-over-year inflation is down to 2.7%, while core inflation (excludes food and energy) is down to 2.6% year over year, the lowest rate since March 2021.

Big picture, some of the assumptions the BLS had to make—specifically regarding housing costs—almost certainly led to underestimating the rate of price increases.

I recommend reserving judgment on inflation until we see another month or two or three of data, but it appears extremely likely that December's data will indicate an acceleration in inflation.

Jobless Claims

Initial jobless claims declined to 224,000 this week. There's nothing wrong with that, though data this time of year is: 1) noisy due to the timing of holidays; and 2) difficult to compare to last year due to the Boeing strike that transpired in December 2024.

Continued claims for unemployment insurance remained relatively low this week.

Nothing to worry about here.

Mortgage Rates

Mortgage rates were essentially unchanged this past week but are about 0.5 percentage points lower than one year ago. That's definitely progress, but more progress is needed in 2026.

Friday

Existing Home Sales

Sales of existing homes (that is, not newly built) increased slightly (0.5%) in November but were 1.0% lower than during November 2024. That's particularly disappointing given that mortgage rates were around 6.8% last November.

On a year-over-year basis, only the \$1 million+ category has seen an increase in sales. That aligns with my current understanding of household financial health.

Links of the Week

For US Businesses, Tariff Complexity Is "Death by a Thousand Papercuts" (Cato)

GDP still wins (Economic Forces)

What the Twin Cities Tell Us About Fixing the Housing Crisis (WSJ, gift link)

Final Thoughts

After this week, my outlook for the economy is: Improved

(The Orioles signing Pete Alonso has me in a good mood, so take what I say with another dose of salt.) The stock market looks steady, corporate earnings forecasts remain rosy, and there is reason to believe that the first half of 2026 will be more than solid if we can avoid another federal government shutdown. This economy is holding its own, and policy uncertainty should be a bit less intense next year compared to this.

2026 ECONOMIC OUTLOOK

Sage Economics

Tue, Dec 23, 2025

2026 ECONOMIC OUTLOOK

Predictions for the new year that definitely won't look bad in hindsight

ANIRBAN BASU AND ZACK FRITZ



2025 was, from an economic perspective, absolutely wild.

Longest federal government shutdown in U.S. history? Check. Trade policy we haven't seen since the 1930s? That too. A massive spending and tax bill with the stranger-than-fiction name of One Big Beautiful Bill Act? Why not?

We'd settle for a less wild 2026.

In our [2025 Forecast](#)—which held up decently well, all things considered—Zack wrote:

There are two huge question marks heading into the year. First, policy uncertainty is a pain regardless of how it resolves, but a quick resolution—one way or another—would help everyone.

Second, inflation. If it speeds up—*oh no*. If it falls back toward 2%, well, the opposite of *oh no*.

Those are still big, scary questions heading into 2026, though perhaps not the biggest nor the scariest.

But it's not all doom and gloom. In some ways (we know, you've heard this before), 2026 has the potential to be better than 2025.

An Early 2026 Turbo Boost

Many households will get chunky tax refunds in 2026 due to OBBBA deduction changes. These refunds will function like stimulus checks, albeit ones that mostly go to higher income households.

Optimistically, this could give much needed warmth to a cooling economy.

Pessimistically, this will cook the economy into a microwaved Hot Pocket—parts of it scalding hot, others so frozen you could crack your teeth on it.

Sticking with the food analogies, this will likely cause a sugar rush. Expect lots of big ticket purchases: cars, travel, other durables, etc.

Will businesses expand to meet the elevated demand? If so, this rush will provide much needed stability to a flagging labor market, at least for a while.

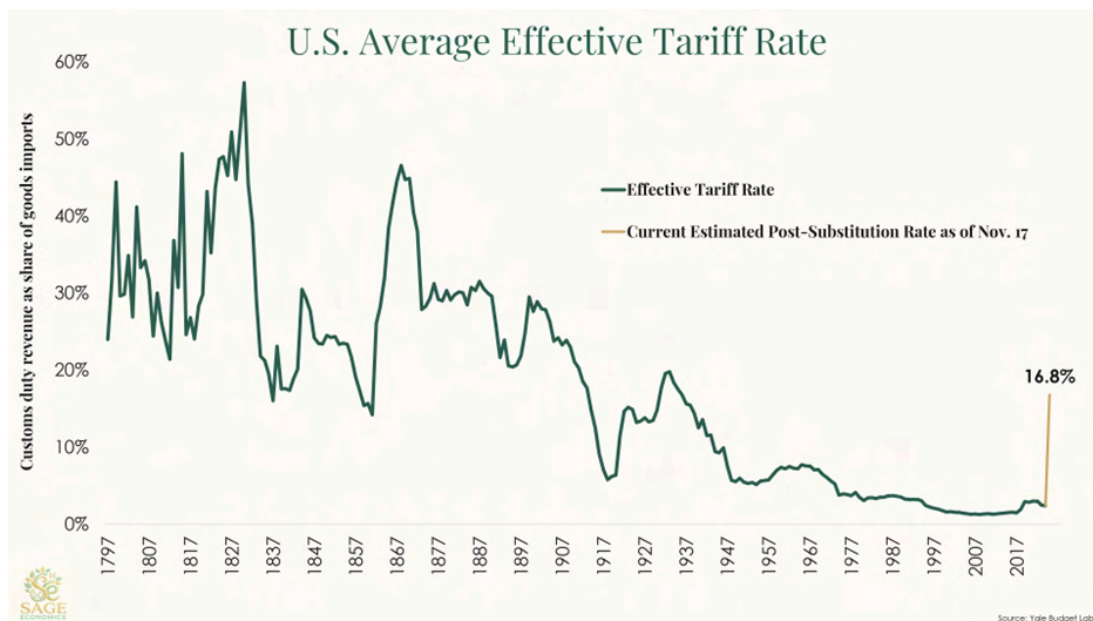
If businesses instead respond to greater demand with higher prices (instead of more employees/production capacity), expect inflation to accelerate and growth-boosting effects to be minimal.

Policy Uncertainty

Despite concerns about tariffs and uncertainty, we were relatively optimistic about the second Trump administration's economic policy. This was a pretty widely held sentiment in late 2024, and one that proved woefully overoptimistic.

Yes, the OBBBA has some nice tax provisions for businesses, but deregulation fell well short of expectations, specifically for construction.

And then there were tariffs, larger and more volatile than virtually anyone thought possible. Our current effective tariff rate (16.8%) is the highest since the 1930s.



The Supreme Court is probably going to invalidate the tariffs authorized by IEEPA, which will drop the effective rate to an estimated 9.3%. That's better but still the highest rate since the 1940s.

It's impossible to tell when and to what degree tariffs will raise prices, and the economic effects of new immigration policies are just as difficult to interpret (we simply don't have great data on undocumented workers).

What's clearer is that trade policy has put the economy into a holding pattern, with certain industries like manufacturing (-63,000 jobs through the first 11 months of 2025) rapidly losing altitude.

And then there's the fact that the U.S. government took a stake in fourteen different companies this year, ending a 60+ year streak during which the government didn't take a stake in even a single healthy company. This is simply not capitalism.

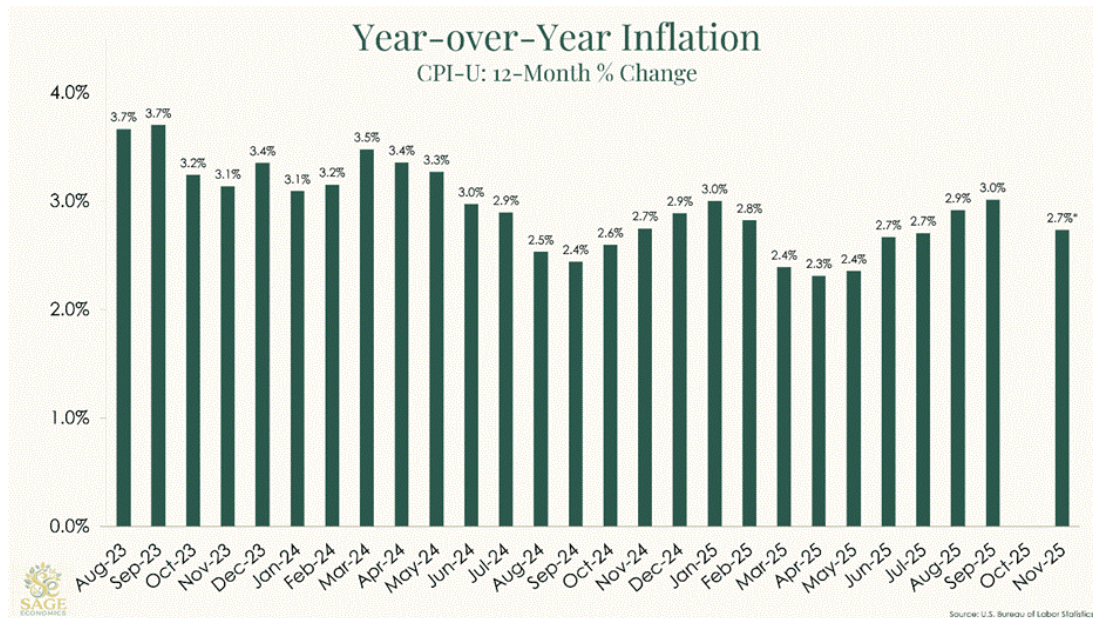
Will 2026 bring more policy certainty? Hopefully, but who really knows? We'll get a new Fed chair around June, and there are concerns about how that will affect Fed independence. Mid-term elections in November will also amp up the uncertainty.

Even so, the consensus view seems to be a calmer 2026 on the policy front. We'll believe it when we see it.

Inflation

Inflation slowed during the first four months of 2025, reaching a 2.3% year-over-year pace in April 2025. Price increases rebounded starting in May and by September had returned to a 3.0% year-over-year pace.

[*Note that the November estimate likely understates inflation due to shutdown-related methodological factors. Those factors will probably lead to slightly higher inflation prints over the next few months.]



That reacceleration is largely due to tariffs. It's no coincidence that prices started to increase immediately after Liberation Day, and we've seen a particularly jarring acceleration in core goods prices.

Looking ahead to 2026, inflation will probably keep plodding along in the same 2.5% to 3.0% year-over-year range that it's hovered in for the past 18 months, at least at the start of the year.

It's tempting to dismiss 3.0% year-over-year inflation as no big deal.

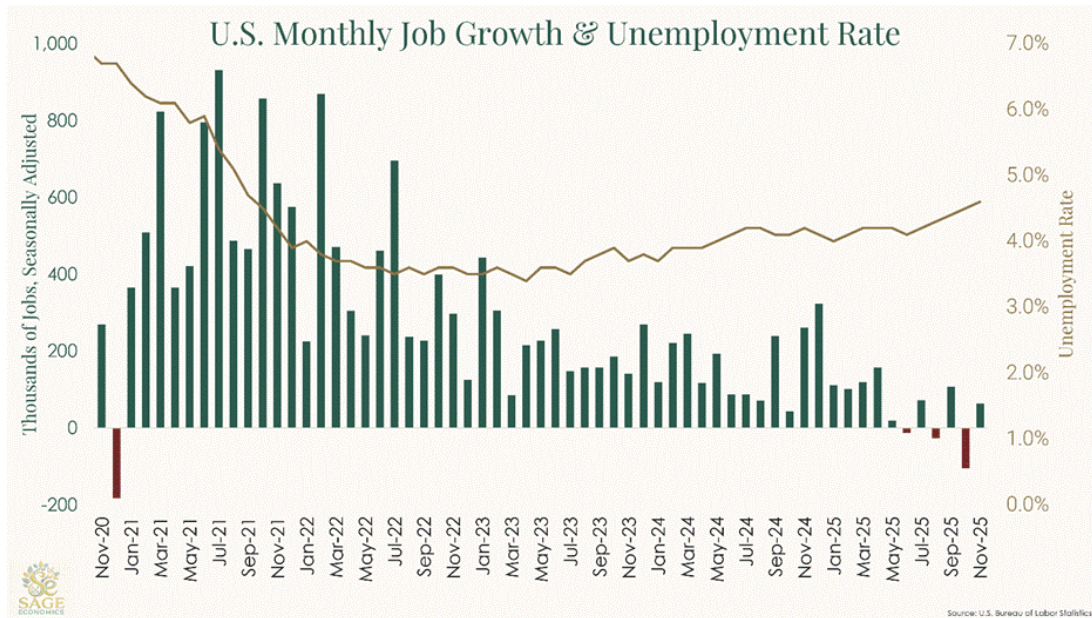
Tempting, but wrong. The difference between 2% and 3% annual inflation isn't 1%, it's 50%. If prices increase at a 2% annual rate, they'll double every 34.5 years. At a 3% annual rate, every 23 years.

Stubbornly above 2% inflation also puts the Fed in a tough spot, and they're already at risk of losing their credibility as inflation fighters.

A final note: there's decent reason to think inflation will peak in the first half of next year, though we expect it to remain above target throughout 2026.

Job Growth and Unemployment

Job growth waned throughout 2025, and the unemployment rate continued to trend higher.



We're worried about the labor market in 2026. If unemployment rises by the same amount that it did in 2025, we'll be looking at a 5.2% rate by the end of the year. Outside of the pandemic-affected months, that would be the highest rate in over a decade and a pretty clear sign that we're heading for recession.

The Great Stay

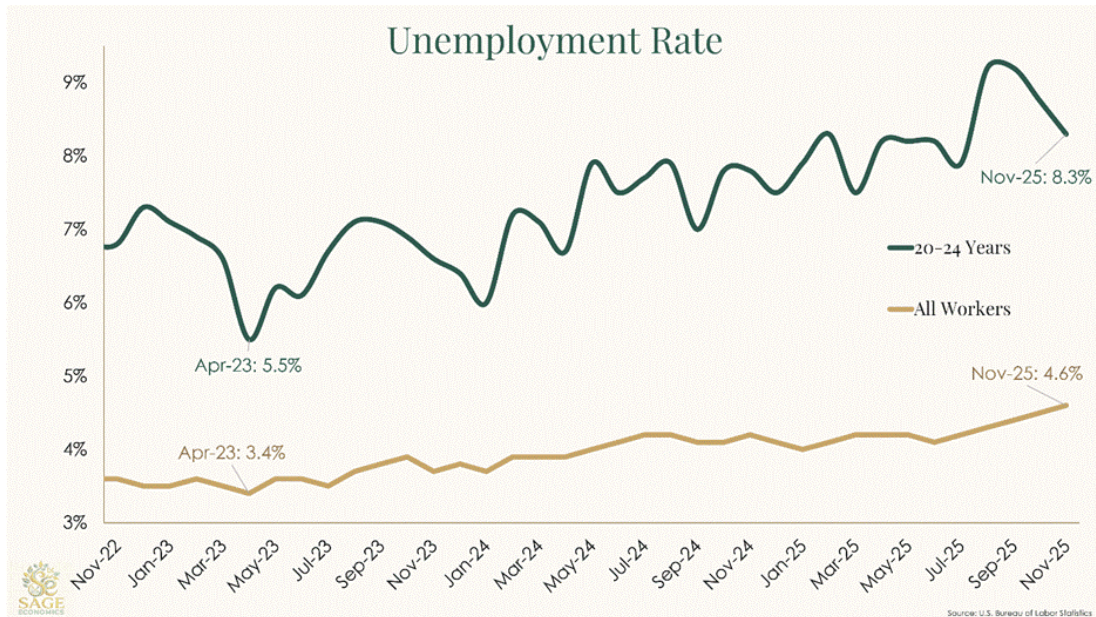
Hiring¹ was as sluggish as a foot race between our past two presidents in 2025, slower than in any year on record other than 2009 (not a particularly pleasant year for the economy, if you'll recall).

Fortunately that lack of hiring was accompanied by a historically low quit rate and a relatively low layoff rate. As a result, unemployment didn't increase by *that* much. It was a great year to have a job and a terrible year to need one.

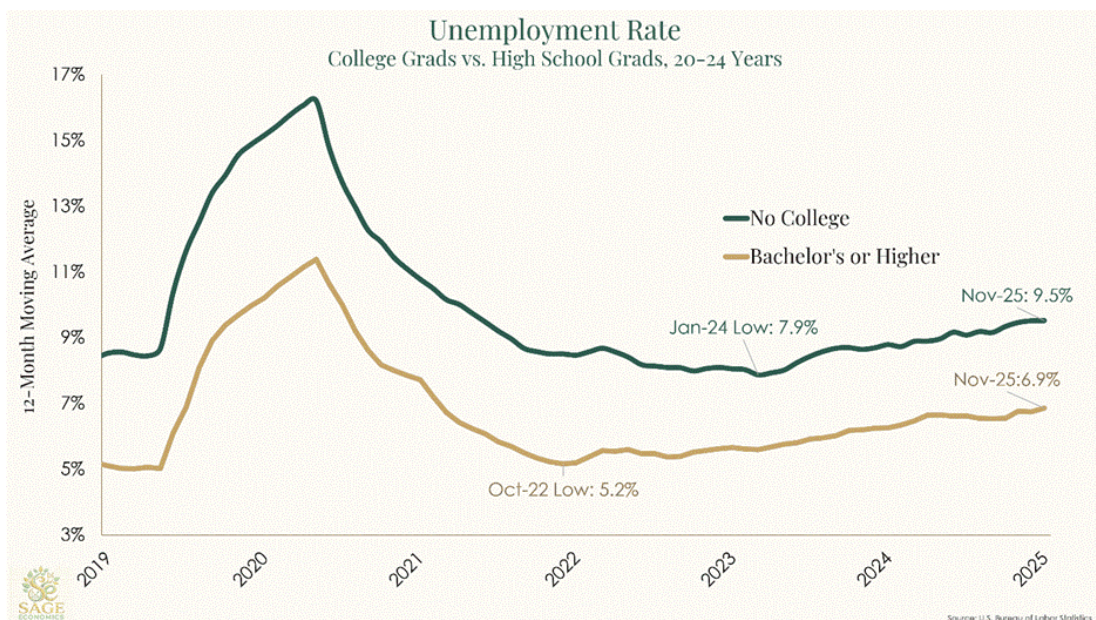
This dynamic has made the economy fragile without causing that much damage—at least not yet, anyway. If hiring picks up in 2026, conditions should improve quickly. If layoffs pick up, things could get dark quickly.

Youth Unemployment

There's no sugarcoating it; the Great Stay has sucked for young adults. Since April 2023 low, the unemployment rate for 20-24 year olds has increased about 3 percentage points, well above the 1.2 percentage point increase in the economywide rate.



Is this due to AI? Maybe at the slimmest margins, but it's mostly the lack of hiring that's pushing young adult unemployment higher. If AI were to blame, we'd expect a larger increase in college educated unemployment.



For many young adults at the very start of their careers, faster hiring is an absolute imperative for 2026. Unfortunately, we think it could be another year of sluggish hiring.

Consumer Spending

If we've learned one thing over the past few years, it's that the U.S. consumer is virtually unstoppable. Highest inflation in over 40 years? Don't care. 30 months of rising unemployment? I'll pay with card, thanks. Tariffs? Historically high credit card interest rates? A government shutdown?

The legions of hell probably couldn't stop a U.S. consumer from spending. They'll draw their Amex Platinum Card like it's Excalibur and carve their way to the cash register. Better yet, they'll shop online from the comfort of their couch.

Even after adjusting for inflation, retail spending rose at a 1.9% annualized pace through the first nine months of 2025 and a 3.3% annualized pace over the past five months (May to September).

There will be a few more hurdles for consumers in 2026—prices are still high, the labor market is softening, etc.—but at this point, who could doubt that they'll clear them with room to spare?

Interest Rates

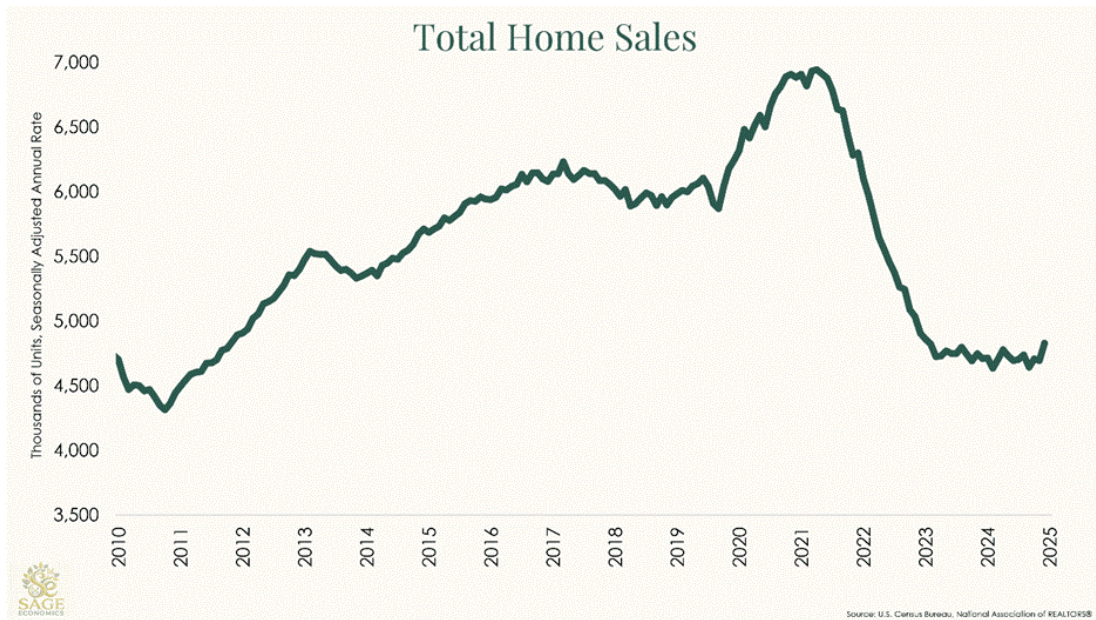
The Fed currently projects just one 25 basis point rate cut in 2026. We think they're wrong and expect three or four cuts by the end of the year to come. Even if we're right, it's unclear if that will actually lead to lower borrowing costs.

The Fed has cut rates by 1.75 percentage points—the equivalent of seven 25 basis point reductions—since September 18, 2024. Unfortunately, those cuts have had little effect on mortgage rates, which are currently higher than they were in the middle of September 2024.

Construction and home selling would really benefit from lower borrowing costs, but with bond yields stubbornly elevated, those lower borrowing costs likely won't arrive until inflation falls closer to the target 2% rate.

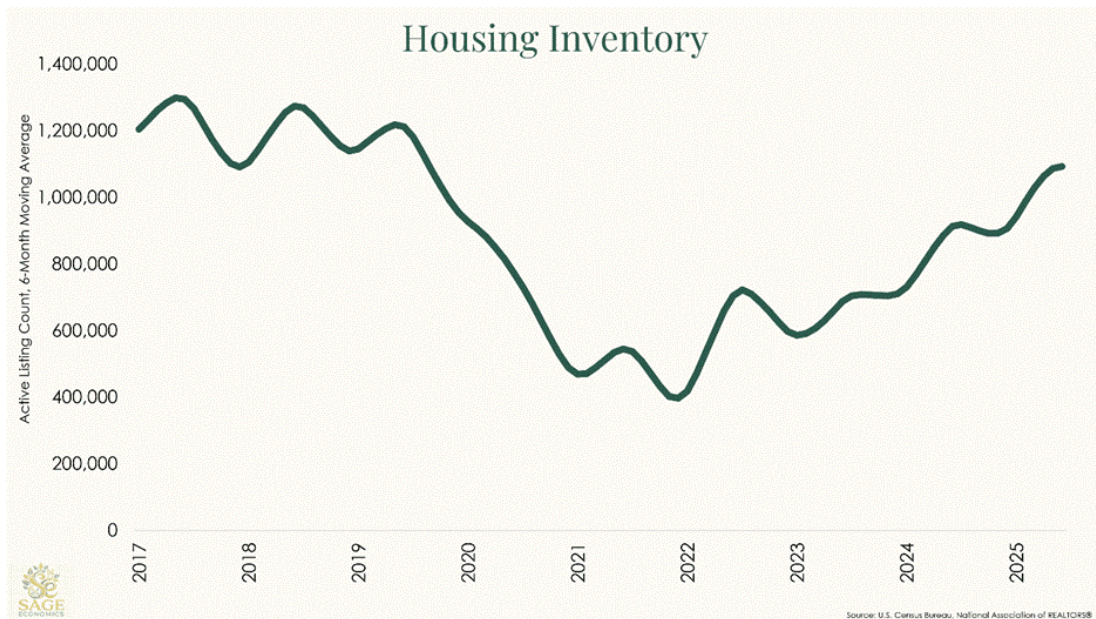
Homebuying

Home sales picked up in 2025, but not by much.



Mortgage rates are to blame, but even if they stay elevated in 2026, it should be a better year for homebuying.

First, inventory levels are back to pre-pandemic levels. A lot of new homes will be finished in 2026, so listing counts should continue to grow next year.



Second, rising inventory levels and still-weak demand have put downward pressure on prices, which are currently rising at the slowest pace since the start of 2013.

And third, the golden handcuff effect of low mortgage rates is fading. In 2022, roughly one in twenty mortgages were locked in with a rate above 6%. That's risen to about one in five. The higher that goes, the fewer homeowners will be unwilling to move due to their current low rate.

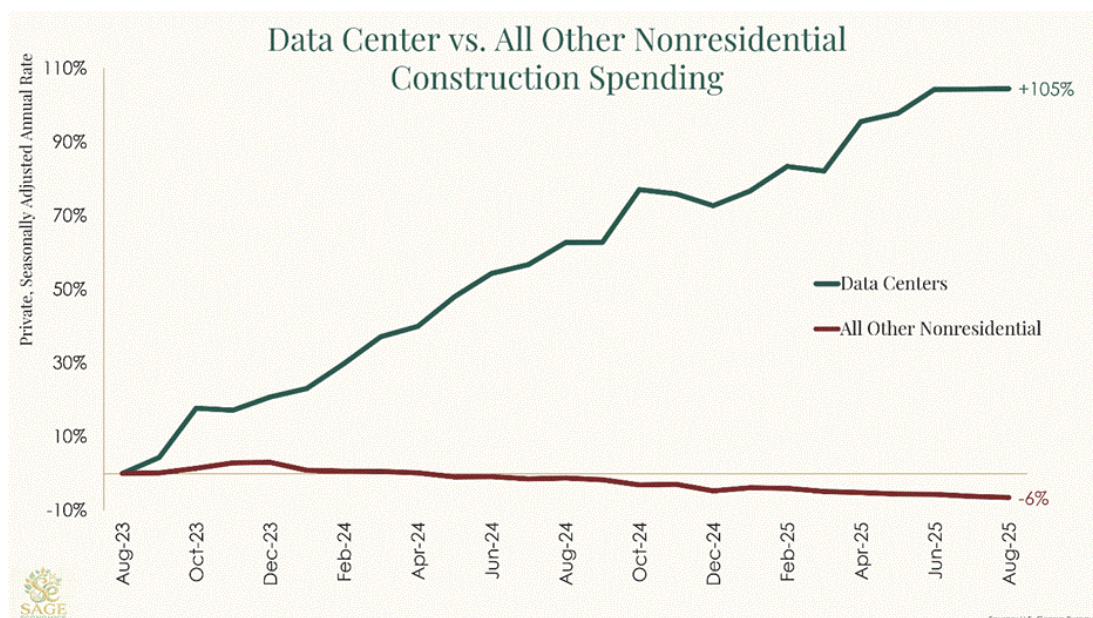
If mortgage rates do come down throughout the year, which is distinctly possible, it will be an even better year for home selling and buying.

Homebuilding

The tailwinds aiding buyers—rising inventory, lower prices—will serve as stiff headwinds for builders, 40% of whom have cut prices in recent months. The second half of 2026 could prove better than the first, especially if rates come down, but the baseline expectation is another year of slowing new home construction.

Nonresidential Construction

Here's the simplest way to think about the nonresidential segment: construction spending on data centers is up 105% over the past two years, while spending on all other private categories is down 6%.



Data center construction will continue to grow in 2026, but that category accounts just 3% of total nonresidential construction activity (yes, the relatively small size of the segment is surprising, as we wrote about a few weeks ago).

We expect a slew of factors like higher rates, policy uncertainty, and potentially higher material prices to continue to weigh on overall nonresidential activity, especially during the first half of the year. Nonresidential activity will hopefully begin to rebound by the end of 2026, especially if borrowing costs come meaningfully lower.

It should be noted that economists are less optimistic than contractors about the nonresidential outlook; 55% of contractors expect their sales to increase over the next six months, according to ABC's CCI, while just 22% expect them to decline. For what it's worth, we hope they're right.

Anirban's Outlook

2026 will offer solid economic outcomes for the few, and mediocre to poor results for the many. In other words, the K-shaped recovery will continue, with corporate earnings growing strongly as AI-based productivity gains begin reshaping cost structures, the stock market edging higher as the Federal Reserve continues its efforts to lower rates, the OBBBA reducing tax liabilities, especially for upper income households and corporations, the wealthy continuing to spend, and investment in energy production and distribution expanding due to a growing need for electricity, including from data centers.

There's enough there to keep GDP expanding, particularly during the first half of the year. But many Americans and regions will feel the effects of stagflation, with the labor market continuing to struggle to create living wage opportunities and inflation remaining meaningfully above the Federal Reserve's 2% target.

In my mind, the wildcard is the stock market. I can imagine a scenario in which inflation readings turn out hotter than anticipated, consumer confidence declines further, corporate earnings sag, the stock market swoons, and even wealthier households pull back on spending after a tax cut-induced roaring

first half of the year. So watch out for the back half of 2026. The economy could supply plenty of drama as mid-term elections approach.

Zack's Outlook

Here's how I see 2026 playing out.

Inflation peaks in the first quarter of 2026 but still spends most of the year hovering in the mid-2% to low-3% range. This is an awkward level for the Fed. Too fast to ignore, too slow to prioritize if the labor market crumples.

Not that I expect it to fully crumple. More of a shuffling limp. Job growth stays slow. Unemployment keeps creeping higher.

Optimistically, things will improve in the second half of the year. If inflation slows, the Fed will be able to cut rates more than expected, giving a much-needed boost to growth. I expect four cuts next year (the Fed projects only one). I really hope I'm right about that.

Pessimistically, I'm still worried about policy uncertainty. I doubt I'm alone, and worried business owners hold off on investments. It would really help if the pace of economic policymaking slowed.

Big picture, my outlook for 2026 includes neither a recession nor stellar growth. We'll get a plodding economy that, with any luck, picks up toward the end of the year.

1 “Hiring” is the act of a company actually hiring a person, which is different from job growth, which refers to the net change in employment.

2025's Last Week in Review

Sage Economics

Fri, Dec 26, 2025

2025's Last Week in Review

Fast GDP growth, cheap gas, & more

ZACK FRITZ



Because it's a Christmas-shortened week and our last of the year, today's review—which covers GDP, jobless claims, consumer confidence, and more—is free for all subscribers.

If you missed our [2026 Economic Outlook](#), be sure to check it out.

Monday

TSA Checkpoint Travel Numbers

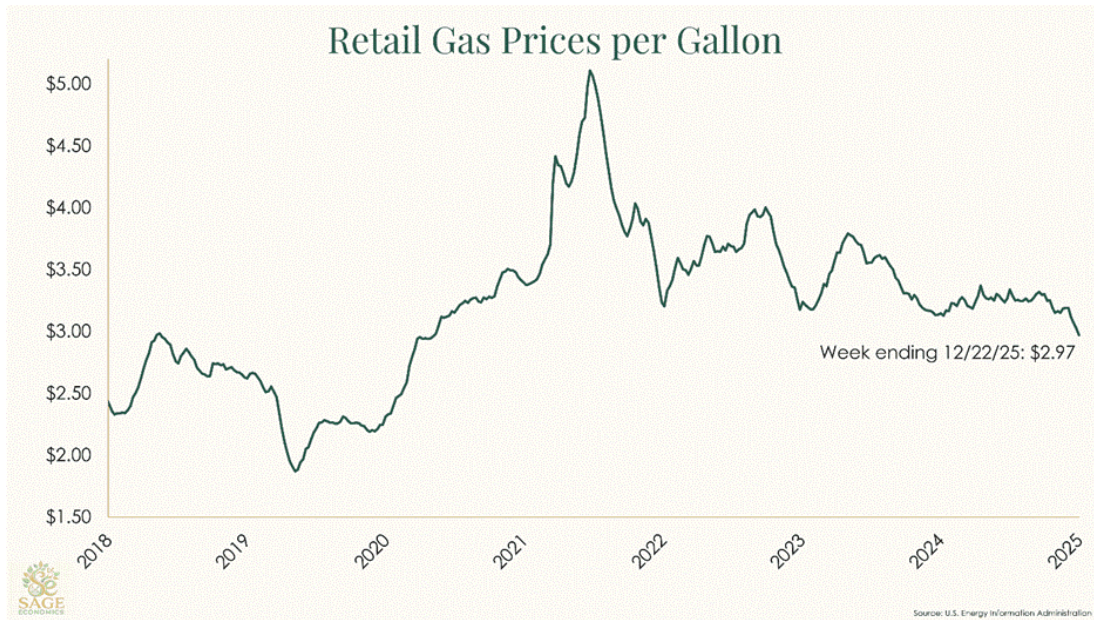
882 million people [have gone through a TSA checkpoint](#) through the first 356 days of 2025. That's 3.9 million more than during the same period of 2024 (+0.4%).

This is a fairly good sign, and one that fits with the idea that the economy is solid for higher income households and bad for those on the margins.

Oil Stuff

Gas prices fell to an average of \$2.97 per gallon during the week ending 12/22 and are below \$3.00/gallon for the first time since 2021.

The roughly \$0.20/gallon plunge since late November ends a remarkable streak of price stability; the average cost of a gallon hovered between \$3.15 and \$3.37 for about 16 months.



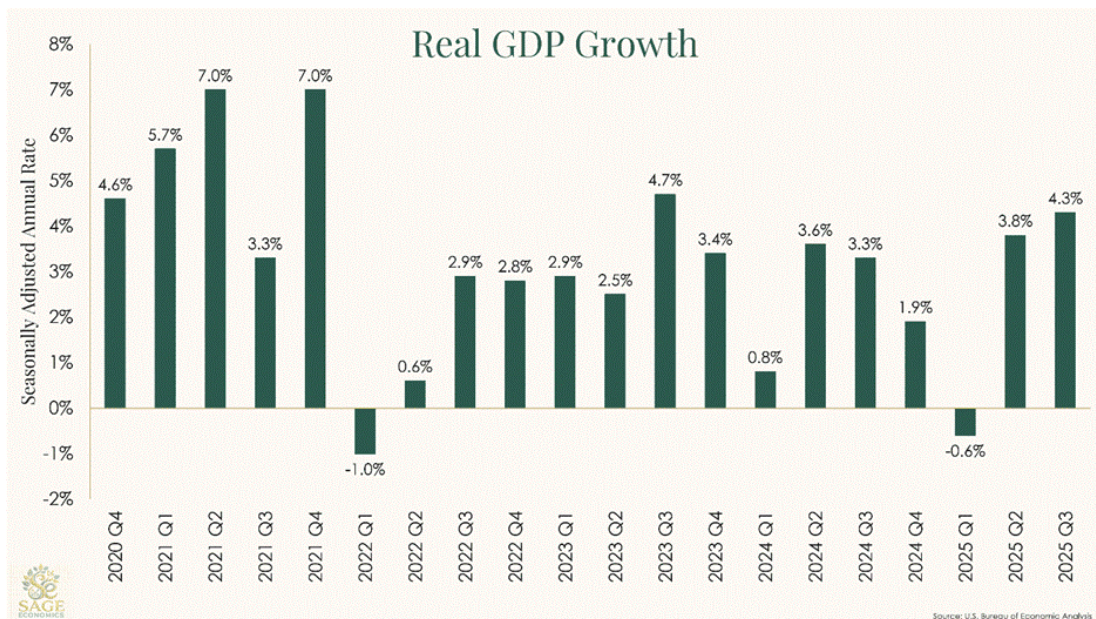
Why the decline? Demand is lower this time of year, there haven't been any weather-related supply disruptions, and we're still producing a ton of oil.

Diesel prices also fell this week and, at \$3.54, are down nearly \$0.30/gallon from one month ago.

Tuesday

GDP

GDP expanded at a 4.3% annualized rate in the fourth quarter, according to the BEA's first estimate.



On a scale of one to really fast, 4.3% annualized growth is *really fast*. There's reason to think growth was actually a little bit slower than that, but even with downward revisions this should remain in the 3%+ range (3% would be *fast*, if not *really fast*).

This is good news!

This also clashes with a lot of other economic data. It's hard to square 4.3% economic expansion with virtually nonexistent job growth and rising unemployment. A few possible explanations, all of which are speculative:

First: the economy is great for people with jobs and higher incomes, and they—boosted by really high stock prices—are powering growth. The consumer spending portion of GDP increased at a strong 3.5% annualized rate in Q3.

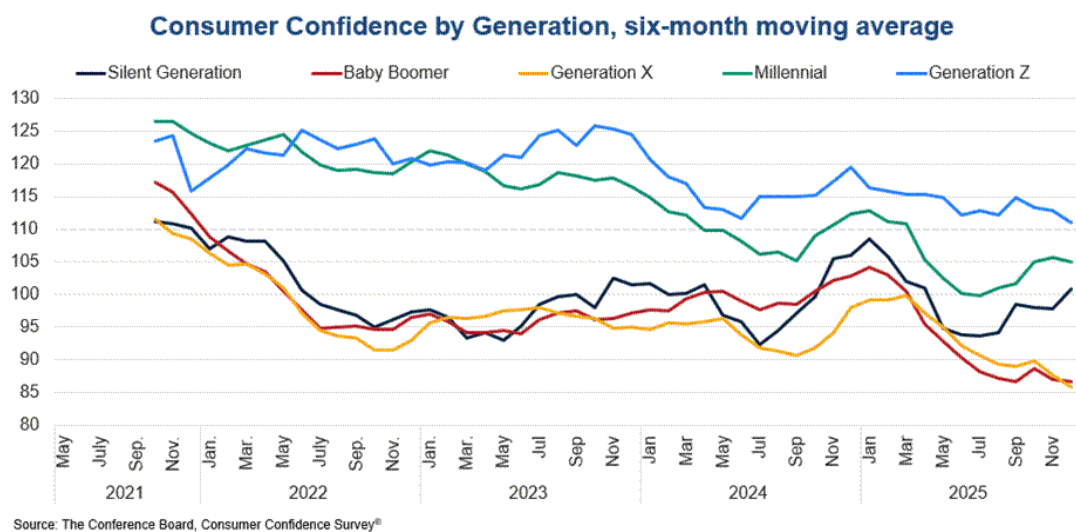
Second: there's measurement error in GDP and/or labor market data, especially given the government shutdown (may explain some but surely not all or even most of the gap).

Third: productivity—output per hour worked—is rising. It's really hard to measure productivity in the short term, but this is possible. Some people are claiming it's AI-related productivity gains, but if I had to guess, I might point to slower labor force churn; new employees are less productive and make existing employees, who have to train them, less productive too.

Again, this is all speculative, and we won't know anything certain about Q3 growth for a while. For now, the upshot is that the economy grew quickly in the third quarter.

Conference Board Consumer Confidence Index

This measure of consumer sentiment fell again in December, and the drop was caused by a sharp decline in how consumers assess the current state of the economy (future expectations were unchanged). The most interesting part of this release is consumer confidence by generation.



Durable Goods Orders

New orders of durable goods—things that typically last at least 3 years—fell 2.2% in October, but I actually think this is a pretty okay release. Excluding transportation equipment (airplane sales are expensive and volatile), orders were up 0.2% for the month and 2.4% on a year-ago basis through the first 10 months of 2025. If we include transportation equipment, orders are up a strong 7.1% compared to the first ten months of 2024.

Not bad, especially given how manufacturing has struggled this year.

Wednesday

Mortgage Rates

Mortgage rates inched down to an average of 6.18% for a 30-year fixed. This is low compared to the rest of 2025, but here's hoping for sub-6% rates in

2026.

Mortgage Applications

Mortgage applications fell 5.0% during the week ending December 19. I wouldn't read too much into this because 1) seasonal adjustments are tough around the holidays and 2) mortgage apps are still way too low.

Jobless Claims

Initial jobless claims fell back to 214,000 this week, and continued claims for unemployment insurance remain relatively low.

Nothing to worry about here.

Thursday

Christmas

This was my first Christmas with a toddler. Kids make the holiday really special, but also really exhausting, so maybe I'll get around to writing something about the economics of Christmas next year.

Friday

Nothing

Links of the Week

Feeding America is getting harder next year ([Slow Boring](#))

How Accurate Are Learning Curves? ([Construction Physics](#))

How to Track Santa ([Statecraft](#))

Final Thoughts

After this week, my outlook for the economy is: *Better*

Strong GDP growth and no sign of rising layoff activity. What's not to like?