U.S. Inflation Insight: December 2025

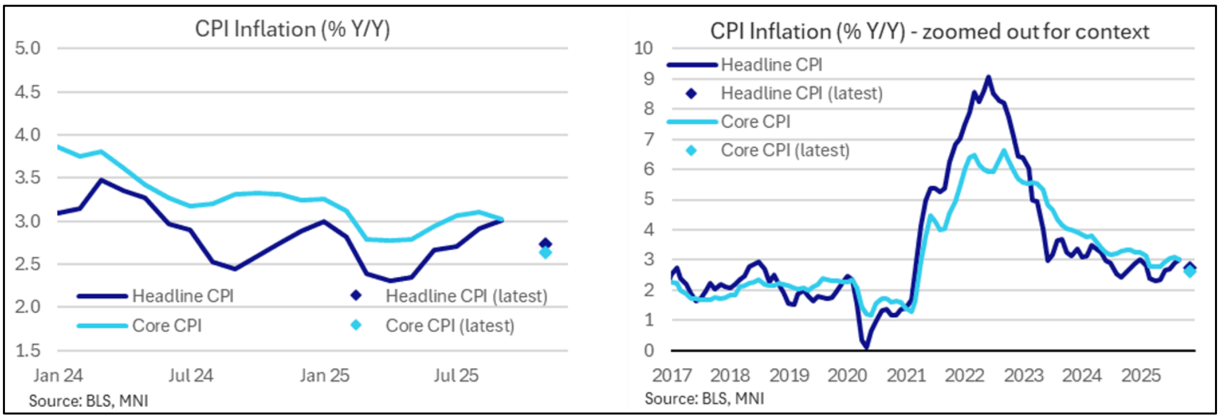
MNI View: Messy And Misleadingly Soft

Dec 19, 2025 – By Tim Cooper and Chris Harrison

	Nov	Prior (Sept)
Core	0.08% (monthly avg over 2 months; 0.24% est)	0.227%
Headline	0.10% (monthly avg over 2 months; est 0.24%)	0.310%
Core Y/Y	2.63% (est 2.98%)	3.02%
Headline Y/Y	2.74% (est 3.05%)	3.01%

Executive Summary

- The November CPI report was even messier than had been feared coming into its delayed release, leaving several lingering questions in its wake.
- On the surface, the inflationary pressures from the report appeared much softer than expected.
- The two-month change in core CPI (Nov vs Sept; the October release was effectively skipped) came in at 0.159% SA, which roughly speaking translates into an 0.08% M/M average for each of Nov and Oct - well below the 0.24% M/M average expected for those two months (and 0.23% M/M in September).
- The average implied monthly change across Oct and Nov for key core CPI items were softer than expected across the board, most notably for housing.
- Headline CPI came in around 0.10% M/M on average in Oct and Nov (2-month rise was 0.20%). Both food and energy inflation softened on an average M/M pace compared with September though dynamics vs expectations varied.
- But the unusual collection period of late November and methodological choices made by BLS appear to have downwardly biased the readings in the report, and look poised to distort readings for months to come.
- This interpretation appears to be borne out by regional Feds' extremely soft readings across the relevant underlying metrics which were based on the CPI data.
- Fed Chair Powell had warned this month regarding the latest CPI report that "data was not collected in October and half of November. So, we're going to get data, but we're going to have to look at it carefully and with a somewhat skeptical eye."
- NY Fed President Williams reinforced this notion in downplaying the signal from the data, confrming that the FOMC will interpret these readings with extreme caution, using the December CPI report due out before the January meeting to make more sense of underlying price dynamics.
- Analysts have sharply downwardly revised expectations for core PCE in October and November (and indeed, Y/Y for several months to come) following the CPI report. All acknowledge that the downside surprise to key aggregates was probably driven by serious methodological issues/choices that may reverse to the upside in the coming months.



CPI Details

Core CPI Averages Soft 0.08% In Nov and Oct; Subcategories Very Limited

The two-month change in core CPI (Nov vs Sept) came in at 0.159% SA, which roughly speaking translates into an 0.08% M/M average for each of Nov and Oct - well below the 0.24% M/M average expected for those two months (and 0.23% M/M in September).

- The number of M/M categories included for October is even more limited than expected: Gasoline, New and Used vehicles are on the list but not much else (items such as Postage and Wireless telephone services and leased cars and trucks).
- Headline CPI was far softer than expected in November at 2.74% Y/Y (we had seen a median estimate of 3.05) after 3.01% in Sep.
- It was led by core CPI at 2.63% Y/Y (median estimate of 2.98) after 3.02% in Sep.
- Core services drove the moderation on the month to 3.02% Y/Y after 3.47%, whilst core goods saw a smaller moderation to 1.39% Y/Y from 1.54% in September.
- Rent components played a sizeable role in this core services moderation, with OER at 3.36% Y/Y vs 3.76% in Sept and primary rents at 2.96% Y/Y vs 3.40% in Sept.

Messy Report Includes Downward Biases To Core CPI Changes

The average implied monthly change across Oct and Nov for key core CPI items were softer than expected across the board, as seen in the table below which outside of used cars took a 2-month % change (Nov vs Sept) and divides by two. But as we had expected given its delayed and truncated nature, this was an extremely messy report, both in the interpretation and the data itself. And on the margins, the methodological choices made by BLS appear to have downwardly biased the readings in the report.

- We should start by saying that the BLS "carried forward" September index levels to October where they weren't able to collect October data (which was the vast majority of categories). And they based the November indices off those levels. That means that any sequential inflationary readings (apart from a handful of categories) gauge the 2-month changes in prices. October wasn't considered a "zero" percent per se for overall CPI or most individual categories; it's just that it's harder to gauge when the sequential pressures arose: did they jump in October and pull back in November, for example. (A major exception was for OER / Rents, see below).
- Even aside from the sequential questions, there are potential distortions in this data starting from the collection period (late November, exaggerating Black Friday discounts on goods in particular) to government shutdown (potentially depressing categories such as airfares).
- Core goods were basically flat (0.06% total change Nov vs Sept, 0.03% avg M/M), despite being lifted by used and new vehicle prices. Apparel for example saw a 0.7% fall across the 2 months (-0.4% monthly average), while there were notable declines in the likes of educational /recreational goods, though household furnishings picked up.
- Core goods ex-used vehicle prices fell 0.08% between Sep and Nov (0.04% avg). Though the actual disinflationary signal from this will probably be called into question given the timing of the November CPI survey around the heavy discounting related to Black Friday, there could be some payback to the upside in December as had been pointed out in MNI's preview.

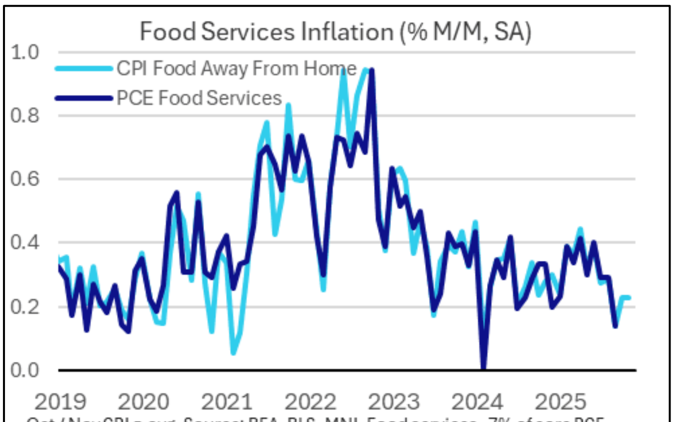
Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core SA M/M	Supercore M/M	Core goods M/M	used cars M/M	apparel M/M	Core services M/M	OER* M/M	rents* M/M	lodging M/M	airfares M/M
Nov (for Y/Y), Oct/Nov Avg (for M/M), actual	0.080	0.03	0.03	0.52	-0.36	0.08	0.27	0.13	-0.64	-3.30
Nov (for Y/Y), Oct/Nov Avg (for M/M), median	0.24	0.20	0.25	0.50	0.50	0.22	0.24	0.24	0.84	0.22
Nov (for Y/Y), Oct/Nov Avg (for M/M), mean	0.24	0.21	0.29	0.43	0.52	0.23	0.23	0.21	0.95	0.12
Bbg consensus	0.3									
Sep (actual)	0.227	0.35	0.22	-0.41	0.73	0.24	0.13	0.20	1.35	2.72

*Source: MNI, BLS, Analyst Expectations. Note top line = average of 2 months (Nov vs Sep), * but we do not average out OER and Rents due to index methodologies*

Tame Headline CPI Belies Core Distortions, Food/Energy Divergence

- As noted it appears that the November aggregate indices were downwardly biased by distortionary housing CPI readings for November (even if, as we note, it will never be known whether the bias was to the upside or the downside given October's data will never be collected).
- That being said, the 2.74% Y/Y reading for November was well below the 3.05% expected, with the downside being driven by the downside miss to core (2.63% vs 3.05%) which in turn will have incorporated the questionably soft housing figures.
- Headline CPI came in around 0.10% M/M on average in Oct and Nov (2-month rise was 0.20%). Both food and energy inflation softened on an average M/M pace compared with September though dynamics vs expectations varied.
- Energy prices printed an average 0.54% M/M in Oct/Nov (rose 1.08% between Nov and Sep), down from 1.5% in Sept but well above the 0.06% expected.
- The BLS did provide monthly gas prices which showed a 2.1% M/M drop in October reversed and then some in November at +3.0% (after 4.1% in Sept), suggesting that the upside momentum for energy as a whole occurred in November. However, based on gas prices so far in December, this should pull back considerably in the next report.
- Food prices were basically flat between September and November however, rising by a total 0.06% for a 0.03% M/M monthly average. That's well below the 0.2% average expected and the 0.35% printed in September. The underlying indices suggest -0.11% M/M average deflation in grocery prices and +0.23% rises in food away from home, the latter indicating some upside momentum after a recent pullback.
- That alone could have upside implications for the core PCE readthrough from this report (as CPI food away from home is included in that PCE services category). For instance, Morgan Stanley have lowered their core PCE forecast to 0.13% M/M Oct-Nov average vs 0.28% pre-CPI, although that's still above the 0.08% M/M seen today for core CPI.

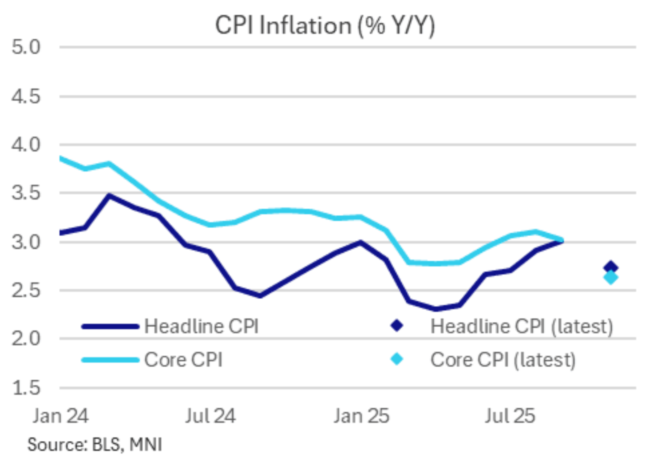


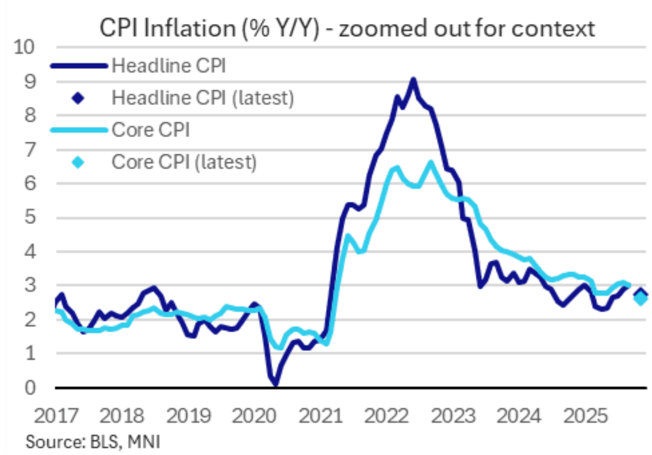
Oct / Nov CPI = avg. Source: BEA, BLS, MNI. Food services ~7% of core PCE

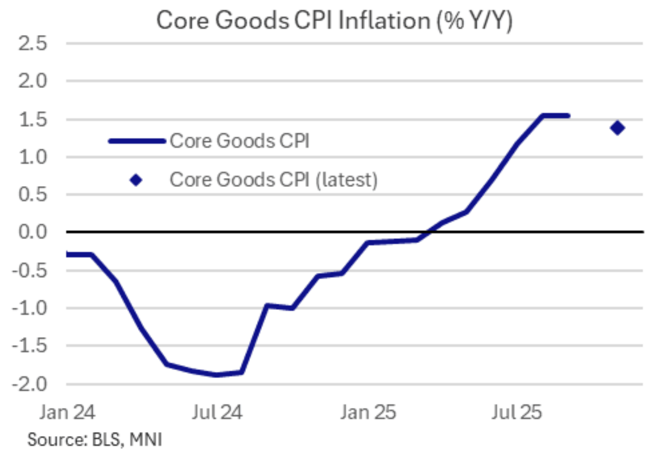
Summary of Key Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

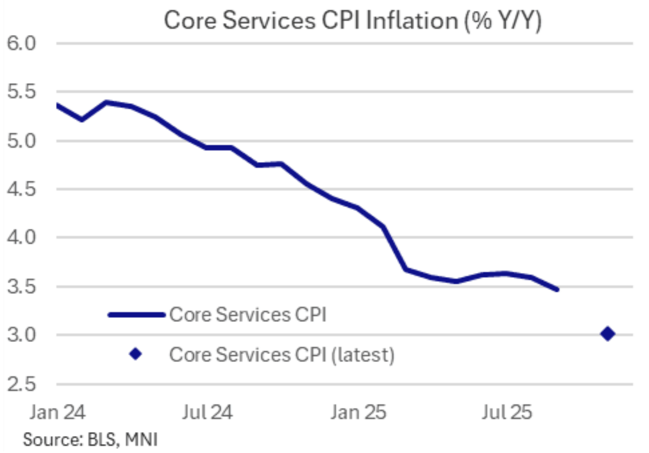
	Headline NSA Index	NSA Y/Y	Core NSA Y/Y	Headline SA M/M	Core SA M/M	Supercore M/M	Food M/M	Energy M/M	gasoline M/M
Nov (for Y/Y), Oct/Nov Avg (for M/M), actual	324.122	2.74	2.63	0.10	0.08	0.03	0.03	0.54	0.4
Nov (for Y/Y), Oct/Nov Avg (for M/M), median	325.043	3.05	2.98	0.24	0.24	0.20	0.26	0.06	0.1
Nov (for Y/Y), Oct/Nov Avg (for M/M), mean	325.078	3.05	2.97	0.25	0.24	0.21	0.25	0.28	0.1
Bbg consensus	325.200	3.1	3.0						
Sep (actual)	324.800	3.01	3.02	0.31	0.23	0.35	0.25	1.51	4.06

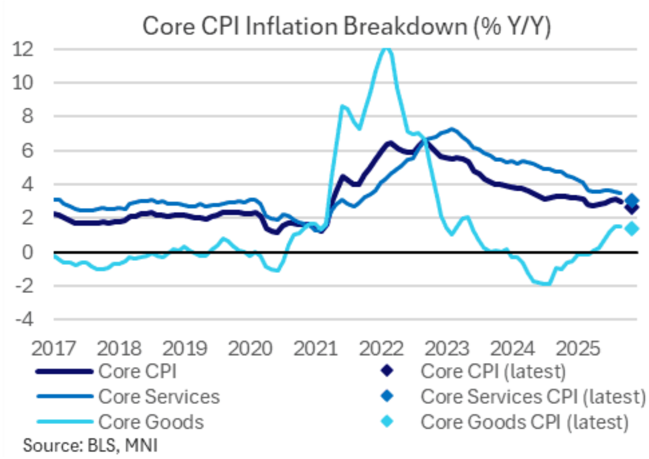
Source: MNI, BLS, Analyst Expectations. Note top line = average of 2 months (Nov vs Sep)









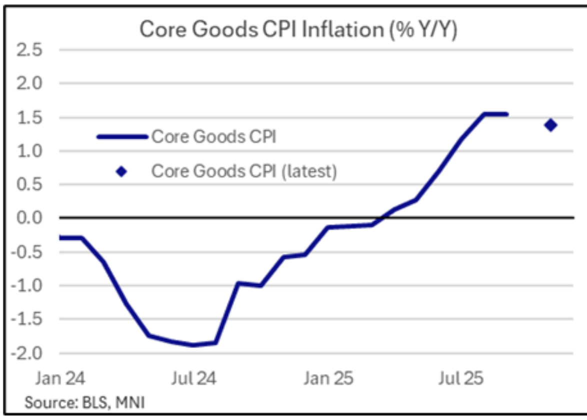


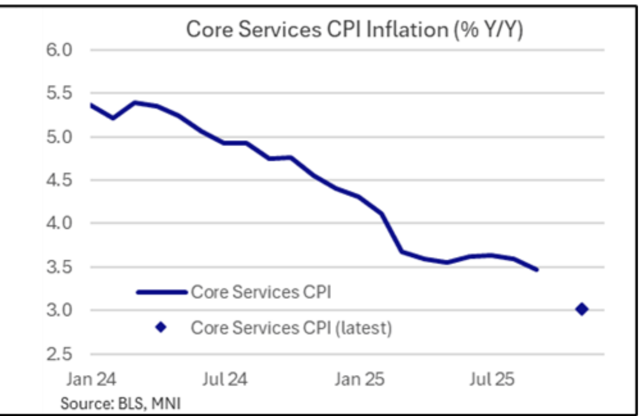
Several Questions Over Soft Housing Inflation Reading

Core services were likewise tame, rising just 0.16% across the 2 months - the 0.08% average was well below the 0.22% expectation.

- OER and rents raised the most eyebrows, rising by 0.14% M/M (up 0.27% over 2 months) and 0.06% (up 0.13% over 2 months) respectively on average over the 2 months vs the 0.13% / 0.20% printed in September.
- This seems unusually soft and there will be many questions over the data collected here. In particular there is a methodological question about the calculation.

- The BLS explains the methodology behind the index as "the current month's index is derived by applying the sixth root of the 6-month OER [or rent] change to the index for the previous month." However for October there was no data collection and thus no change in the index assumed. As such if this assumption is correct, November's index will have been understated (or overstated!) by the lack of change in October.
- We "correct" for this by leaving the "average" change for Nov and Oct as an overall one-month change - there, OER comes in at 0.27% M/M with rents 0.13%, which is actually close to consensus.
- The way this methodology works, it could keep OER / rent prices depressed over the coming 5 months as the index will have been biased by the dropping out of October, though we await further clarity from the BLS on this topic.
- Additionally we wonder how much overall CPI was depressed by this finding (or indeed, it may have been overstated in the unlikely event that October's housing inflation was "actually" negative).
- However it's not completely out of the question that there would be a deceleration in housing CPI given their lagged nature and there doesn't seem to be anything amiss in the regional Y/Y data that we wouldn't have expected from private sector indices indicating softer prices by end-2025.





Airfares Drop Sharply, Unclear Whether Shutdown Related

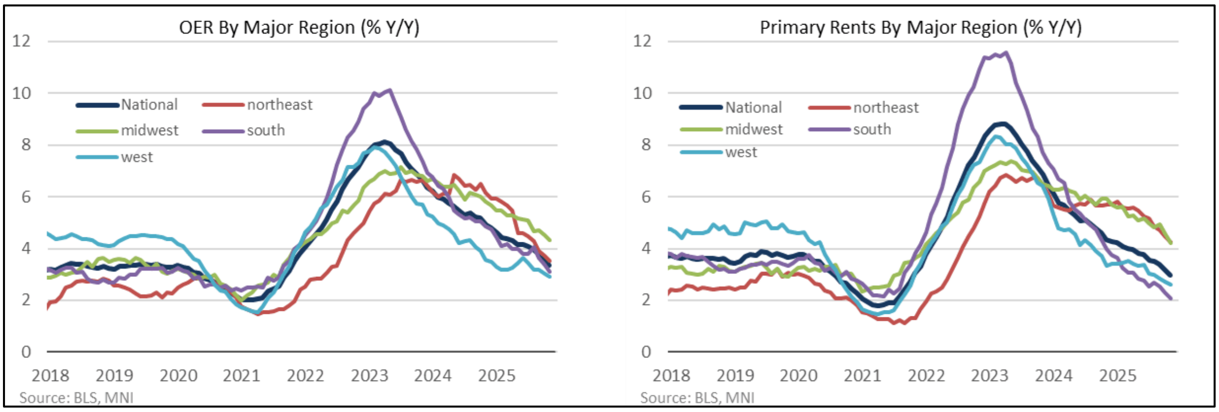
- Outside of the contentious shelter issue: Airfares collapsed 6.6% over those 2 months, though lodging was also soft (-1.3%).
- We also saw notable declines in recreational (-0.6% over 2 months) services and fairly tame medical care (+0.1%), though "other" (+0.8%) and education services (+0.7%) picked up.
- Unusually the BLS didn't include any November data on vehicle insurance, though at least this category is taken from PPI for PCE purposes.

BLS Confirms To MNI That Housing Indices Unchanged In October

MNI contacted the Bureau of Labor Statistics to confirm methodologies used in the latest CPI report to impute the October data and calculate the November indices.

- They confirm that they carried over most price indices from September into October, making November's comparison to October's price levels effectively a 2-month change: "BLS could not collect October 2025 reference period survey data so survey data for commodities and services were carried forward to October 2025 from September 2025. November 2025 indexes were calculated by comparing the collected November 2025 prices with the carried-forward October 2025 prices."
- The key exception is that the Rent and OER index values for October were unchanged on a % basis from prior. "Rents for October 2025 were carried forward from April 2025, yielding unchanged index values for rent and owners' equivalent rent for October. November 2025 indexes were calculated using collected November rent data, following our regular procedures. The change from September to November reflects collected data for those months."
- Recall that these calculations use a rotation of properties that are returned to each 6 months, with the 6th-root of the change over that time used as the relevant housing CPI.

- The carry forward policy for uncollected data in October meant October's monthly index was the same as September's, meaning 0.0% housing inflation, and November's was compared to that level.
- As such the 0.13% increase in rents / 0.27% in OER in the November index was effectively a one-month change, vs a 2-month change.
- This decision to record a "zero" for October housing means the overall CPI index was lower than it otherwise would have been, keeping a lid on Y/Y NSA inflation not just for November but for the next year until the base effect drops out (NSA levels are traditionally never revised).
- It also means that there could be distortions with the April 2026 housing CPI prints as BLS has yet to determine how to treat a 6 month change vs October's "missing" month.

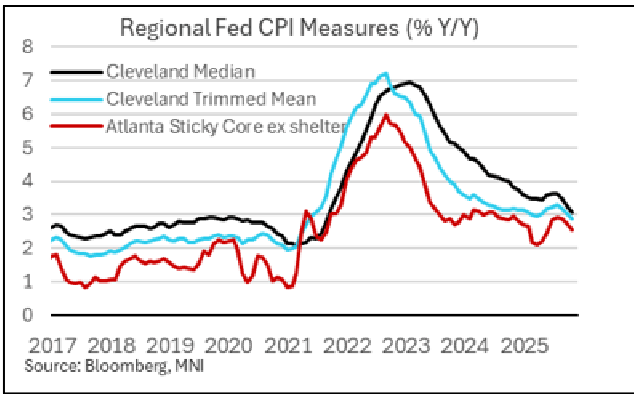


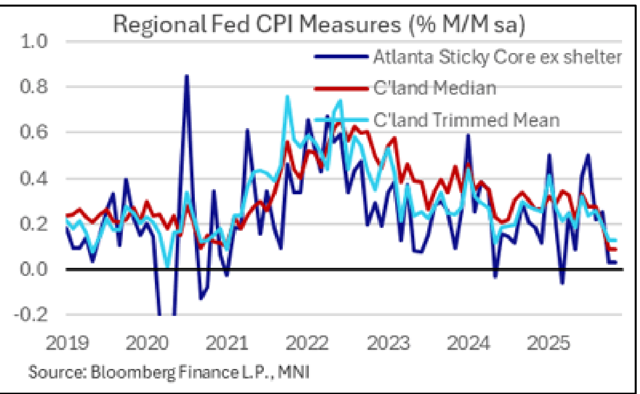
Note that we have temporarily interpolated October values for OER and primary rents by region

A Pause In The Push Higher Of Alternate CPI Y/Y Metrics

The Cleveland and Atlanta Feds have published their usual measures of underlying inflation following the delayed/abbreviated Oct/Nov CPI report. As with the latter, the measures of October and November inflation were soft but carried significant methodological issues, and should be interpreted with caution.

- Starting with the Cleveland Fed's median CPI measures: they interpolated October data from the November CPI figures, leading them to post 0.09% M/M median increases in both October and November vs 0.20% in September.
- That's extremely low: we haven't seen back to back figures that low since 2010 (the 16% trimmed mean measures of 0.13% for both months was a post-pandemic low). It's suggestive of the BLS having underestimated several November indices. The Y/Y figures printed 3.1% for median and 2.9% for trimmed mean, rates not seen since 2021 though these had more clearly been trending lower over recent months.
- The Atlanta Fed's "sticky" CPI measures showed similar outcomes, with core ex-shelter printing a miniscule 0.03% M/M for each of October and November - like Cleveland, the October figure was interpolated. Those are levels seen only rarely since 2020 and not in consecutive months. The Y/Y rate fell to 2.6% from 2.7% for a 5-month low.
- We're a little surprised the regional Feds published these data at more or less face value; they appear to have interpreted the BLS's November ex-housing indices as many (including us) did: as reflecting a 2-month change, as opposed to a "zero" percent change in the October column.
- However, the extremely soft readings across all of the relevant underlying metrics suggest that downward biases to the BLS's latest inflation indices, whether via collection or via methodological choices, heavily distorted the latest report.

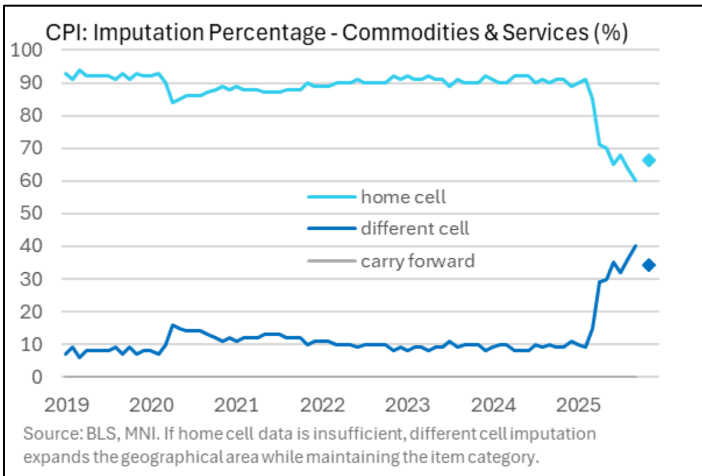


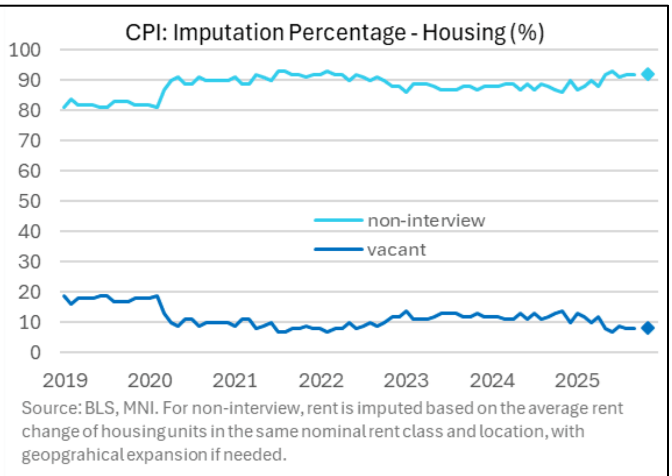


CPI Imputation Shares At Least Improved In November

It doesn't help shine any light on the wide range of questions around October data collection but the imputation percentages for the commodities & services survey at least improved in November after a latest deterioration in September.

- Specifically, the different cell imputation share fell to 34% in Nov after a latest record high of 40% in September (data back to Jan 2019), 36% in Aug and 32% in Jul.
- For context, this share started the year at 10% before climbing following budget and staff cuts. It also peaked at 15% in the pandemic when in-person surveys weren't possible.
- Different cell imputation is used when the BLS needs to expand the geographical area for a specific category.
- With 66% using home cell imputation, 0% used carry forward as opposed to what was presumably a huge spike in October.
- The housing survey imputation shares were similar to prior months however, with a non-interview share of 92% in both Nov and Sep.
- For these non-interview cases: "rent is imputed by the average change in rent observed for housing units within the same nominal rent class (low, medium, or high rent) within the same location. If this source pool is insufficient, the pool is expanded across geography similar to the method used in the C&S survey."



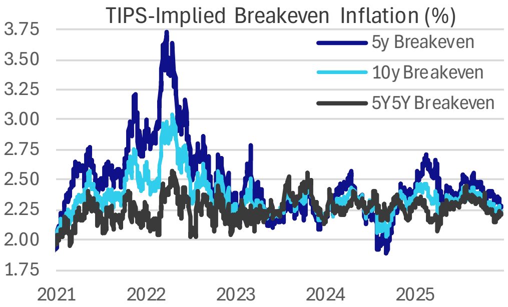


Analysts Lament "Mess" Of A CPI Report, Revise Down PCE Tracking

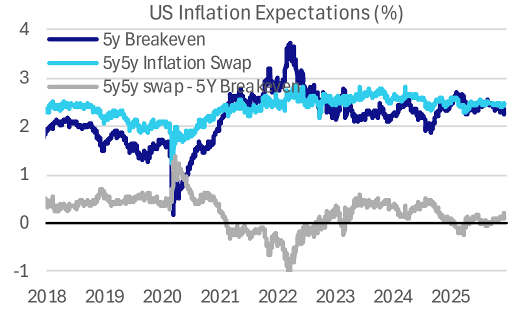
Analysts have sharply downwardly revised expectations for core PCE in October and November following the CPI report. All acknowledge that the downside surprise to key aggregates was probably driven by serious methodological issues/choices that may reverse to the upside in the coming months. As such the Fed is unlikely to take the data seriously or literally when deciding whether a follow-up cut is appropriate at its January meeting, preferring to take more signal from the December report due out in mid-January. A few selected comments:

- **Morgan Stanley:** "The downside surprise reflects weakness in both goods and services, but may be partly due to methodological issues. The BLS might have carried forward prices in some categories, effectively assuming 0% inflation. If these technical factors are the main source of weakness, we could see reacceleration in December...While we anticipated a seasonal drag on OER, the 0.13% m/m average pace in Oct/Nov cannot be explained by seasonals alone. Limited data and carry forward assumptions may have introduced a downward bias...we now forecast core PCE inflation increased 0.128%m/m on average in October and November...We were previously tracking core PCE at 0.28% average Oct/Nov, the 15bp downward revision is explained by both lower-than-expected core goods (-6bp), and core services (-9bp)."
- **Jefferies:** "We need to acknowledge that this data is a mess...Taken at face value, this report and the increase in the unemployment rate through November should increase the odds of further rate cuts in 2026. However, the lack of detail in the data and the varied treatment of certain missing data points creates a general sense of uneasiness and distrust in the data. "Clean" reports in December will be key to putting these October and November reports into the proper context."
- **Nomura:** "We expect missing October data and the unusual timing of November data collection drove a downward bias in CPI estimates. This is likely to lead to positive payback in December, January, and April....Weakness was broad-based, with outsized underperformance in rents, airfares, and core goods, which tend to be discounted during the holiday season...The BEA has yet to announce how it will handle the October data subjected to carry-forward imputation. However, we expect the BEA to assume zero inflation for those components, and this would likely lead core PCE inflation to slow to 0.102% m-o-m for October. We have also revised down our November core PCE tracking estimate slightly to 0.227% m-o-m (from our prior estimate of 0.252%)."
- **TD:** "We are skeptical regarding how much substance we can get from the November report given the well telegraphed issues around the collection of data in October and November. It seems to us that the BLS made a number of methodological judgments for October and November that resulted in a downward bias for consumer prices...Consequently, we would advise market participants to look through the November report's dovish signal, and wait for what's likely to be more reliable December numbers. We think Fed officials will probably aim to do the same."
- **Wells Fargo:** "Data issues aside, our belief is that inflation is slowing on trend, even if today's print overstates the slowdown. When paired with the softening in the labor market, we remain comfortable with rate cuts in March and June of next year. At that point, we believe cleaner data will give the Committee more confidence that inflation is leveling off and will soon be moving back toward 2%."

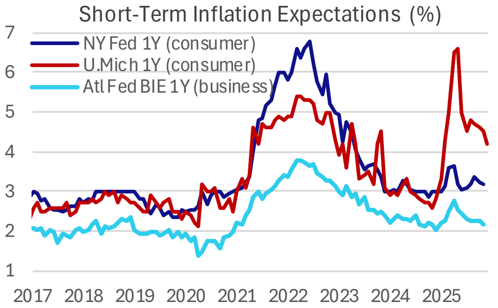
Inflation Expectations



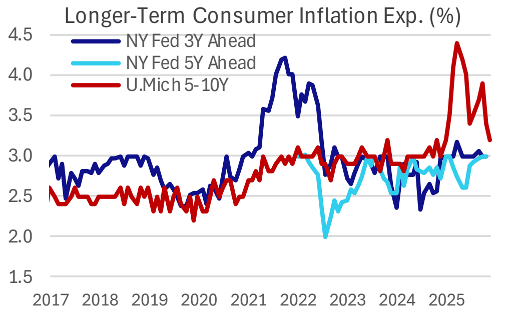
Source: Bloomberg, MNI



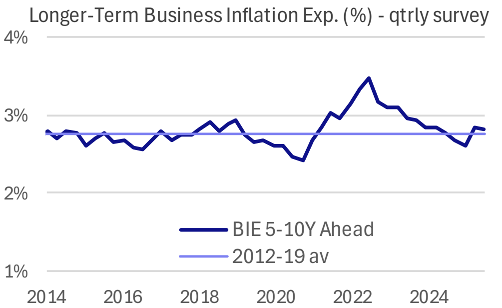
Source: Bloomberg, MNI



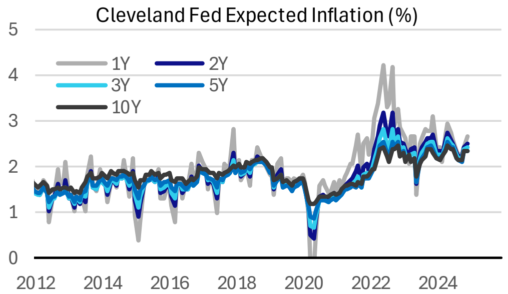
Source: Atlanta Fed, NY Fed, U.Mich & MNI



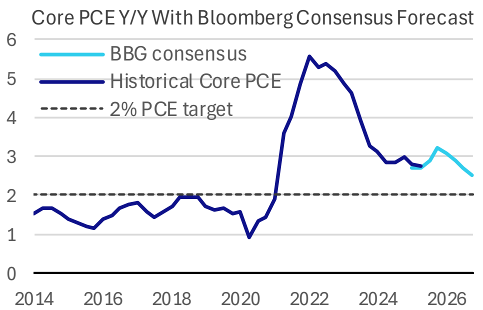
Source: Bloomberg Finance L.P., MNI, NY



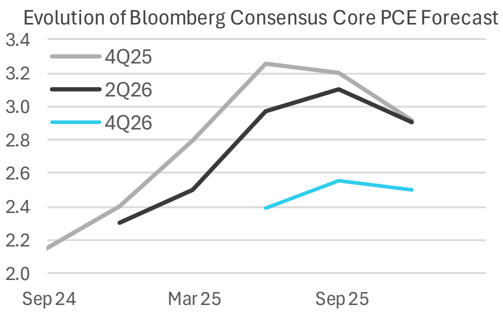
Source: Atlanta Fed & MNI



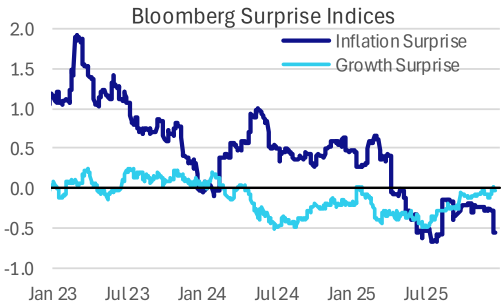
Model using Tsy yields, inflation data, inflation swaps & survey-based measures of expectations. Source: Cleveland Fed, MNI



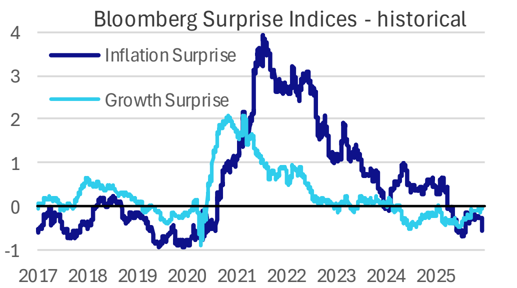
Source: Bloomberg Finance L.P. & MNI - shown quarterly



Source: Bloomberg Finance L.P. & MNI - shown quarterly



Source: Bloomberg Finance L.P., MNI



Source: Bloomberg Finance L.P., MNI

MNI Policy Team Insights

MNI POLICY: Lingering Inflation Unease Tempers Fed Easing Push

By Jean Yung, Pedro Nicolaci da Costa and Evan Ryser (Oct 20, 2025)

WASHINGTON - The Federal Reserve is set to cut interest rates for a second straight meeting next week, but the easing trajectory will be tempered by caution due to persistent inflation pressures.

Most Fed policymakers are willing to trust the idea tariffs will be a one-time move in the price level, comforted by solidly anchored long-run inflation expectations. Yet the process by which trade-driven cost increases are passed through to consumers has been gradual, contributing to stickier inflation. Escalating tensions between the United States and China in recent days also threaten to reignite fears of inflation persistence.

Hawks like Kansas City Fed President Jeff Schmid point out price pressures are broadening in spite of the relatively muted effect of tariffs. And even some officials who are penciling in a third rate cut this year are waiting to see whether inflation will peak around 3% before supporting further cuts next year. (See MNI INTERVIEW: Fed Right To Remain Cautious On Rate Cuts-Kohn)

That the neutral rate is uncertain and thought to be only a percentage point or so below where the fed funds rate currently sits adds to policymakers reservations about the pace of future cuts. It suggests that after the current phase of risk-management cuts, the Fed's path forward may not match the aggressive downward trajectory markets are pricing.

"If we move too quickly, then we may leave the inflation job unfinished and have to come back later and finish it. If we move too slowly, there may be unnecessary losses – painful losses – in the employment market. So we're in the difficult situation of balancing those two things," Fed Chair Jerome Powell said last week.

NOT SO RELAXED

The Fed's own trend inflation gauges suggest more sustained upward pressure, while businesses continue to tell the Fed they intend to pass along cost increases eventually.

Trimmed-mean PCE inflation has been 2.7% for the three months through August, while the Cleveland Fed’s median PCE inflation reading has been above 3% since 2021, and was at 3.3% in July and August. The NY Fed’s multivariate core trend measure jumped to 3.1% in August from 2.8% in July, primarily driven by increases in services ex-housing and core goods, the bank said.

Firms in the Atlanta Fed district "warned that price passthrough resulting from tariffs has just begun and expect to see prices rise into 2026," according to the October Beige Book. Retailers in the Chicago Fed district said they were "trying to hold off passing tariff-related cost increases on to consumers for as long as possible."

Governor Chris Waller, who has argued from the start that tariffs won't have a lasting impact on inflation, last week cited a different reason to be vigilant: stronger-than-expected growth stands in conflict with a weakening labor market.

If growth holds up or accelerates and the labor market recovers, it might be an indication that policy is less restrictive than thought and cuts need to be slower than he had expected, he said, also noting that the government shutdown has delayed economic data, complicating the Fed's analysis.

"What I would want to avoid is rekindling inflationary pressure by moving too quickly and squandering the significant progress we have made taming inflation,” he said.

MNI POLICY: Fed Set To Keep Cutting Rates Despite Missing Data

By Jean Yung, Pedro Nicolaci da Costa and Evan Ryser (Oct 9, 2025)

WASHINGTON - The U.S. government data blackout will not prevent the Federal Reserve from continuing to lower interest rates as soon as this month and possibly again in December in response to signs of weakening in the labor market and inflation that is less acute than officials had feared.

Growing risks to the employment outlook following sharp downward revisions to payrolls data have been a central justification for the resumption of interest rate cuts after a year-long hiatus.

While the September jobs report has been delayed by the shutdown, private sector data showing signs of weakness continue to accumulate. ADP projected a 32,000 loss of private-sector jobs last month after a 3,000 decline the prior month, while the Conference Board's labor market differential of jobs "plentiful" minus jobs "hard to get" was at its lowest level in over a year.

Inflation remains too high for both goods and services, but policymakers are also coming around to the idea that the most prominent upside risks from tariffs — via second-round effects, retaliatory actions from trading partners or supply chain disruptions — have subsided. This leaves a fairly high bar for officials to halt their easing campaign, even in the face of still-elevated inflation readings.

At 4.0%-4.25% after the September move, the fed funds rate remains a point above the median FOMC estimate of neutral, leaving further room to cut while keeping policy modestly restrictive.

"Most (FOMC members) judged that it likely would be appropriate to ease policy further over the remainder of this year," the minutes of the September Fed meeting published Wednesday said.

CONTINUED DETERIORATION

Further evidence of labor market weakness will be key to how far and how quickly the FOMC will lower borrowing costs. A sharp slowdown in job growth since April has been tempered by a simultaneous fall in the supply of workers due to immigration restrictions, lifting the unemployment rate only gradually and keeping the labor market largely in balance. (See: MNI INTERVIEW: Fed Right To Remain Cautious On Rate Cuts-Kohn)

Evidence from private sector data show those trends have likely continued, an Fed Governor Chris Waller cited the downbeat ADP data as pointing to "continued deterioration" through August. At the same time, officials find some comfort in growth numbers suggesting the economy picked up steam in the second half of the year, which would be inconsistent with a sudden sharp round of layoffs.

A new real-time tracker of the jobless rate from the Federal Reserve Bank of Chicago using private and public data estimates the September jobless rate to be 4.3%, unchanged from August and allaying fears of a more abrupt uptick. But the details of the report show the hiring rate fell slightly while the rate of layoffs and quits rose, meaning a slightly higher probability that the jobless rate could rise a tenth.

The high frequency measures on which the Chicago Fed estimate relies, including ADP, Google Trends and Morning Consult survey data are unaffected by the lack of official statistics, which are used primarily for benchmarking.

INFLATION CONFIDENCE

By contrast, there's less private sector coverage of price data, and the Fed may be flying blind on inflation until the next CPI report is published.

Tariff effects are clearly present in the latest data, contributing four-tenths to core inflation, but there's little evidence of factors that could amplify these effects, and cooling wage growth removes another source of potential price pressures.

The mere surprise factor that the widely-expected tariff inflation has not materialized is giving many FOMC members comfort that the worst of the economy's inflation troubles are over — indicated also by consistently anchored long-term inflation expectations in both market and survey measures.

MNI INTERVIEW: ISM Services Chair Sees Depressed Growth Ahead

By Evan Ryser (Oct 3, 2025)

WASHINGTON - Activity in the U.S. service sector stagnated in September and is likely to remain sluggish despite Federal Reserve interest rate cuts, Institute for Supply Management services chair Steve Miller told MNI Friday.

"There's no impetus so far that I see that says we're going to start expanding again. It's been a very gradual, consistent trend, once you filter out the noise of a specific month or two," Miller said.

The ISM composite decreased 2ppts to 50.0 last month, below market expectations and meeting the neutral threshold of 50 for the first time since January 2010. The business activity index slumped 5.1ppts to 49.9, and employment edged up 0.7pt to 47.2. The U.S. job market contracted for a fourth straight month in September, according to the ISM data.

Still-high mortgage rates mean little bounce in construction, real estate and rental activity, Miller said. That suggests the service sector growth may not get a boost from expected Fed rate cuts as previously expected, he said.

SUPPLY AND DEMAND

The ISM new orders index fell from 56.0 to 50.4, returning to where it was in July. "Its not a good trajectory," Miller said.

"There's nothing indicating strength there. It's all slow growth," he said of new orders. "I would expect we're going to hover around 50 to 50.5, unless there's some big tariff announcement" that could again spur a front-loading of orders.

While the demand side of the economy is tepid at the moment, the supply side is struggling as well. The supplier deliveries gauge increased to 52.6, the highest reading since February, signaling that firms are seeing more delays.

Slowness in supplier deliveries is being caused in part by wholesalers' reluctance to bring in additional inventory without a clearer underlying sense of demand, Miller said.

The prices paid ISM measure increased two tenths to 69.4, the fourth straight reading above 69 and the second highest since October 2022.

"We're talking to supply managers and there isn't any commentary around how retail prices or prices to consumers are sticking. It looks like inflation numbers are still pretty well under control." (See: MNI INTERVIEW: Fed Can Cut Gradually If Jobs Stay Strong- Kohn)

NO FIRE, NO HIRE

The employment component rose to 47.2 from 46.5, suggesting that the pace of job losses slowed last month.

Still, "even though we're not getting anything that's saying reductions in force or significant downsizing, it looks like there's a high reluctance to add staff," Miller said.

The employment contraction is driven by tariff policy uncertainty but at the same time ISM survey respondents are holding to an anticipation that something is going to happen that enables services growth to return, he said.