

OBSERVATIONS

- ▶ Markets ended lower last week after a possible derailment of US-China relations on Friday. The S&P 500 lost 2.4%, small caps lost 3.3%, and the yield on the 10-year Treasury fell 9 basis points to 4.03%.¹
- ▶ The Association of American Railroads (AAR) Freight Index showed that total US rail carloads fell 1.2% year-over-year (YoY) in September, with 12 of the 20 major carload categories tracked by the AAR posting declines suggesting a slight decline in US overall trade activity.²
- ▶ The University of Michigan Consumer Sentiment Index showed little change as it edged lower to 55.0 in October from September's 55.1 level. The index has remained below its long-run average of 85 since mid-2021.¹

EXPECTATIONS

- ▶ The minutes from the most recent Federal Reserve meeting show that on balance Fed officials were more worried about the labor market than the near-term inflation dynamic. While most participants noted that the US tariff policy may cause inflation to modestly move away from the Fed's 2% target in the coming months, they also remained confident that progress towards lower inflation would likely resume next year. However, most participants saw the weakening of the labor market as a problem and noted the "downside risks to employment as having increased," and therefore it was appropriate to cut rates.¹
- ▶ A ceasefire began in Gaza between Israel and Hamas last week via multi-party talks orchestrated by the US. Should the ceasefire hold, and overall peace talks progress it would likely increase maritime traffic through the Suez Canal—which is down substantially since the fighting started due to solidarity attacks in support of the Palestinians by Houthi militia against ships transiting the waterway near Yemen.¹

ONE MORE THOUGHT: US Labor Market in a Unique Position³

In previous publications—see [Q2 Commentary](#)—we have noted the importance of the relatively strong US labor market—low unemployment and high participation rates—as the key factor supporting the spending of the US consumer. Because the US economy is more geared toward domestic consumption (US retail spending) rather than global trade (exports) the state of the labor market has been a crucial factor in the resilience of the US economy over the past three years in the face of higher interest rates, increased tariffs, and volatile food and energy prices. Equally we have noted that in the most recent jobs reports from August and September, the pace of new job creation has all but stalled—see [RC 15-Sep](#)—and that this often times in the past was only manifest when the economy was or was about to fall into a recession. However, today it seems that things could be different for the labor market. This is because the number of jobs needed to keep the unemployment rate stable—neither increasing nor decreasing—has dramatically fallen. For instance, due to our demographics, our natural born labor force is likely to grow only about 0.2% annually over the next decade. For reference the US-born labor force expanded by about 0.26% annually over the past five years and has been in a gradual, but steady, decline for more than a decade. Assuming no immigration, then the US economy would have to create about 340k new jobs per year (169 million total labor force x 0.002 = 338k) to absorb the new entrants into the workforce. On a monthly basis that would be about 28k new jobs every month. In fact, that is about what we are seeing at present. Over the

¹ Bloomberg LP, 10/10/2025

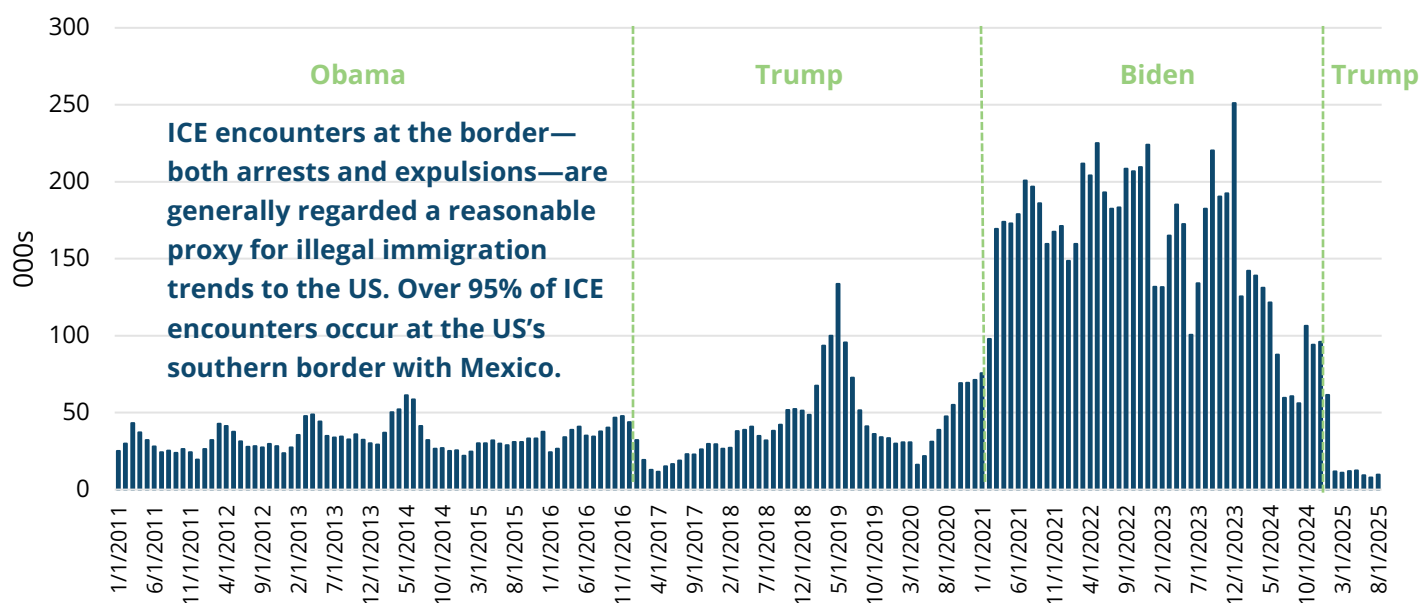
² <https://www.aar.org/rail-industry-overview/September>

³ Clearstead, DHS/ICE, BLS, 10/10/2025

summer months of May to September, the US economy created about 27k jobs on average over that four-month period. Assuming no net immigration, that is just about enough jobs to keep the unemployment rate stable. Furthermore, the assumption of no net immigration into the US, which seemed wholly unrealistic just last year, may actually come to pass in 2025 and 2026. Data from the Department of Homeland Security and Immigration and Customs Enforcement (ICE) show that “encounters” at US borders—primarily the US southern border with Mexico—have fallen dramatically—see Chart of the Week. This data coupled with the rise in deportations this year that is estimated to be at least 400k raises the possibility that the net immigration—legal or illegal entrants to the US minus those departed—could be close to zero. Given this, while the headline job creations numbers of late—assuming no big upward revisions—look scary, perhaps the supply of labor has shrunk so much that even a paltry 30k of new jobs created on a monthly basis will be enough to keep the labor market stable. That is the good news. The bad news is that with such little growth in the US workforce, US GDP growth could be structurally lower in the years to come. That is unless AI can help power a boom in productivity, in which case then labor analysts and economists may have to adjust to a new normal.

CHART OF THE WEEK

ICE Encounters at the Border Plummet



Source: Clearstead, DHS/ICE, BLS, 10/10/2025

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