CBC Weekly Economic Update

Monday Loan & Deposit Pipeline Meeting

December 8, 2025

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EVP & CFO
Commercial Bank of California

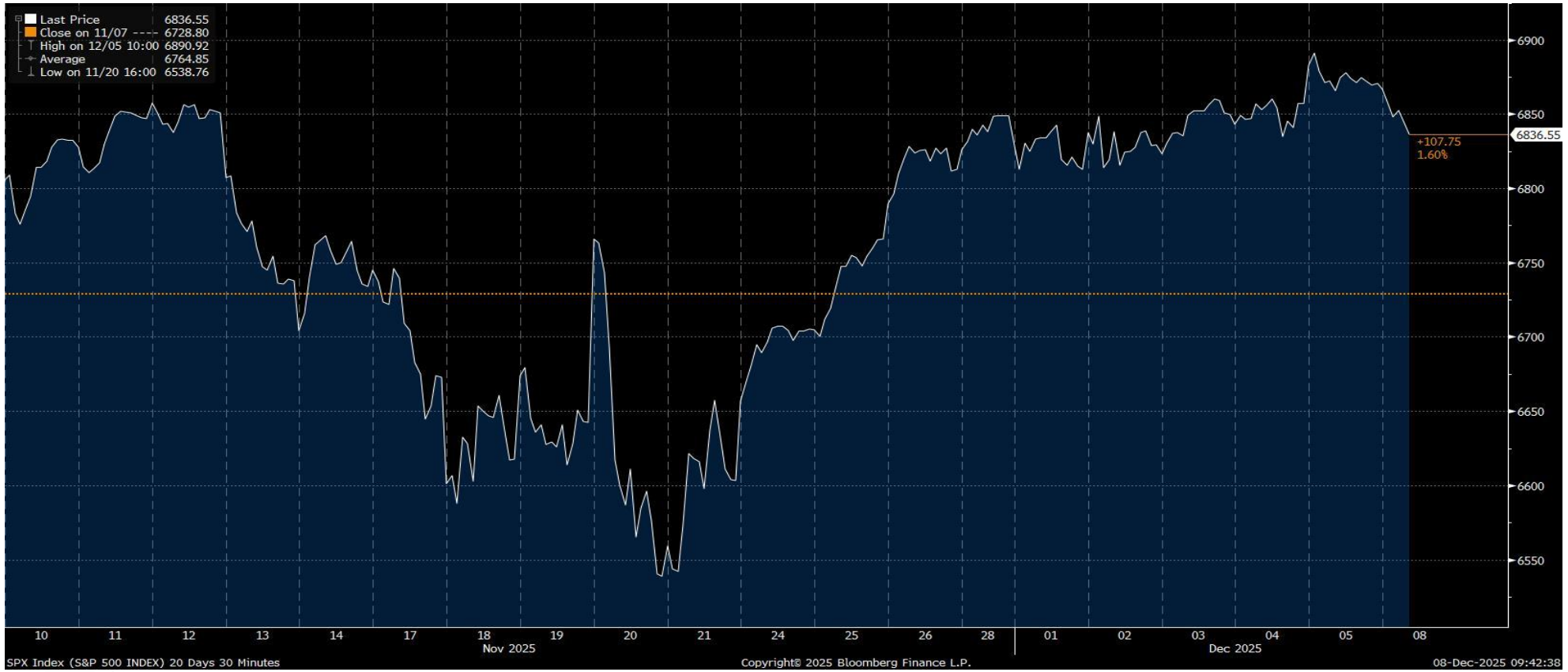
Discussion Topics

- Stock Markets
- PCE Price Index & Personal Income and Outlays
- ISM Manufacturing Index & Surveys
- ISM Services Index & Surveys
- ADP National Employment Report
- Challenger Job Cuts Report
- Weekly Initial Jobless and Continuing Claims
- Rate Cut Expectation & Treasury Yields
  - Treasury Forward Rates
- Key Takeaways

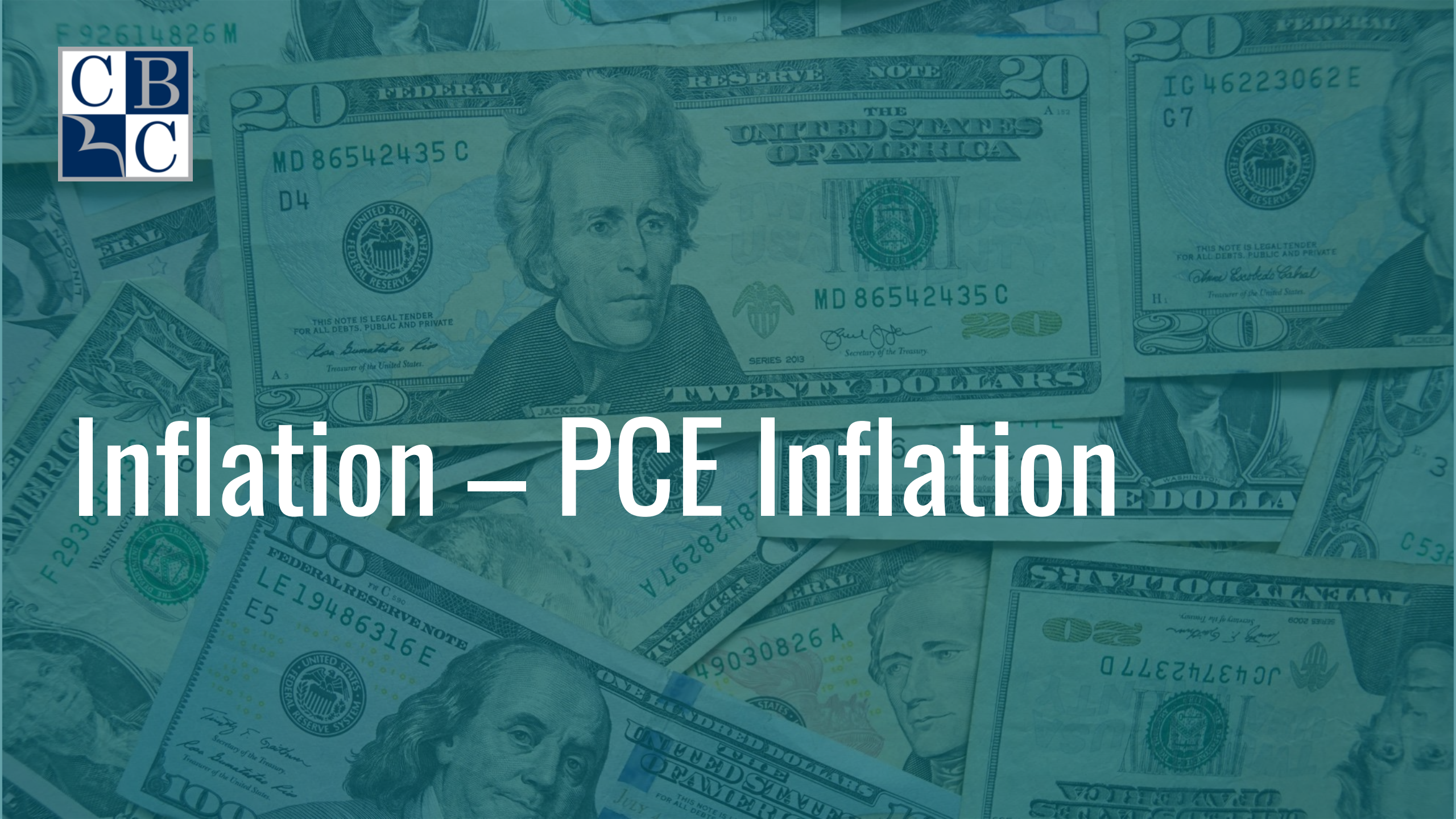
Stock Markets

Stock Markets

- **Markets near record highs** on hopes for Fed rate cuts and tax relief.
- **Strong YTD gains**, led by Nasdaq (+22%) and S&P 500 (+17%).
- **Retail earnings boost sentiment**, despite labor and tariff concerns.



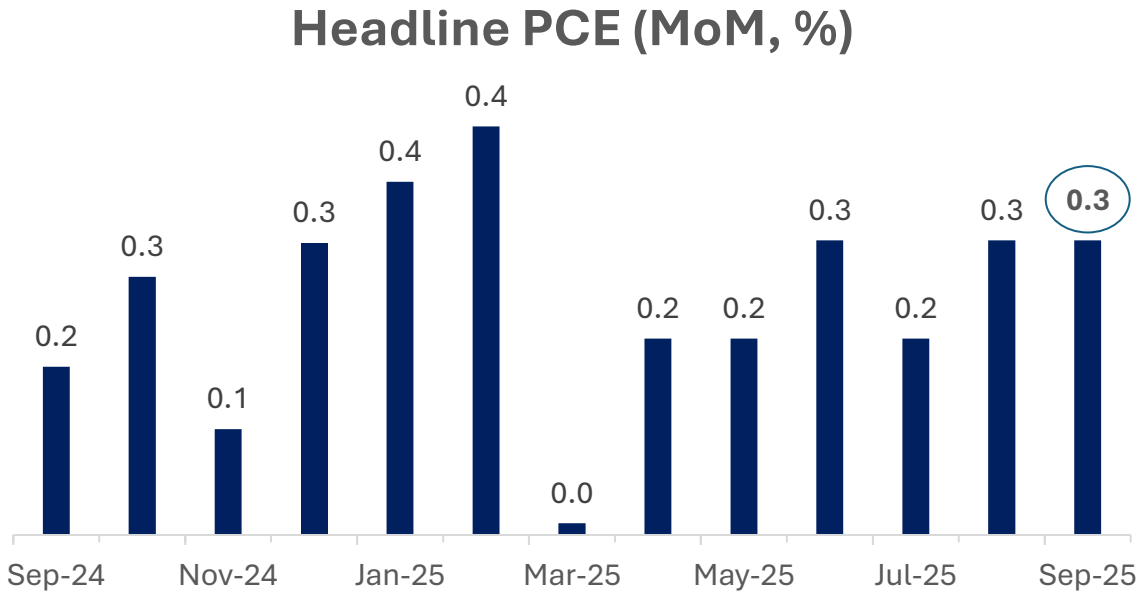
Source: Bloomberg

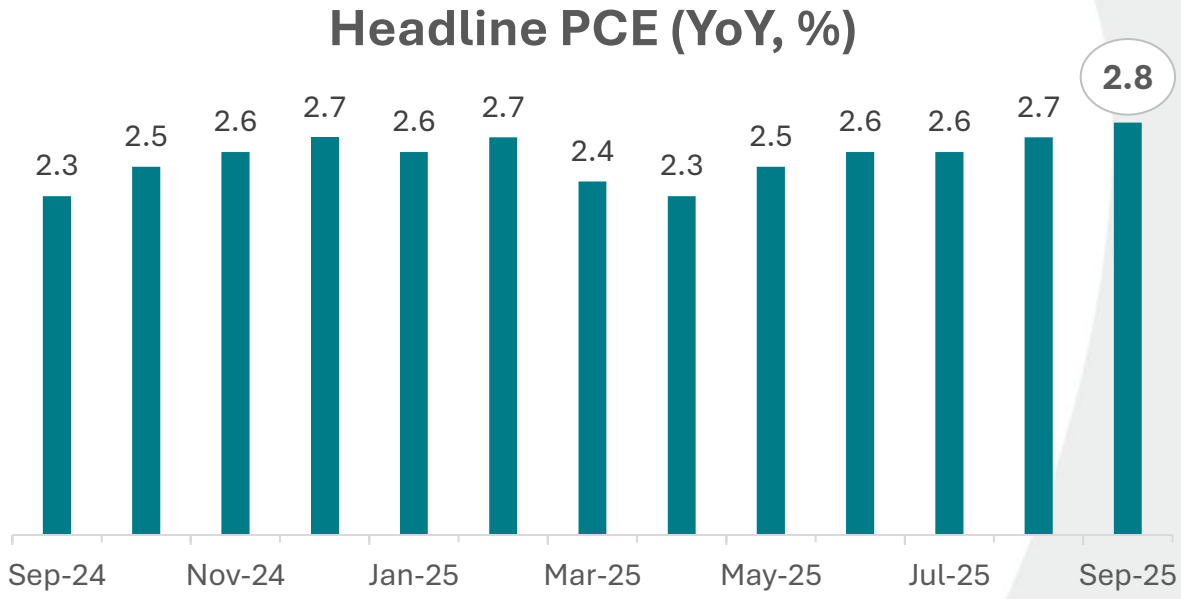


Inflation – PCE Inflation

Personal Consumption Expenditures (PCE) - September

- **Inflation came in right on target.**
- **PCE up 0.3%** from August – driven by gas, clothing, food, and services like airfare & dining.
- **Goods prices jumped 0.5%** (biggest since Jan), gas surged **+3.6%**.
- **Services cooled** to +0.2% (housing & financial costs eased).
- **Year-over-year:** Inflation at **2.8%**, led by services (+3.4%) and big spikes in beef, airfare, and financial services.

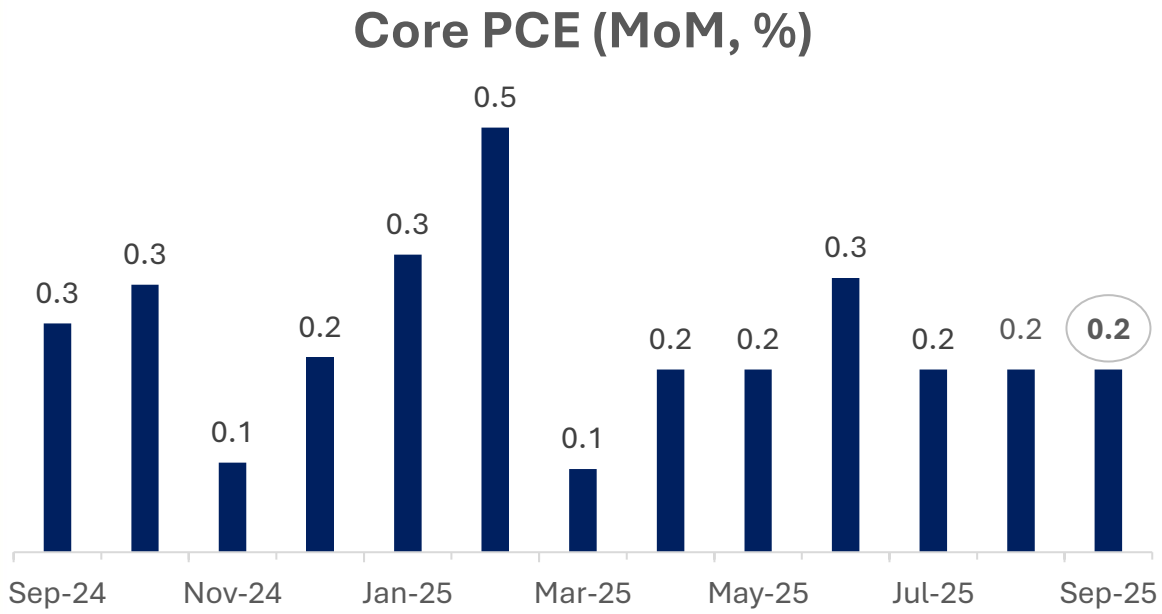


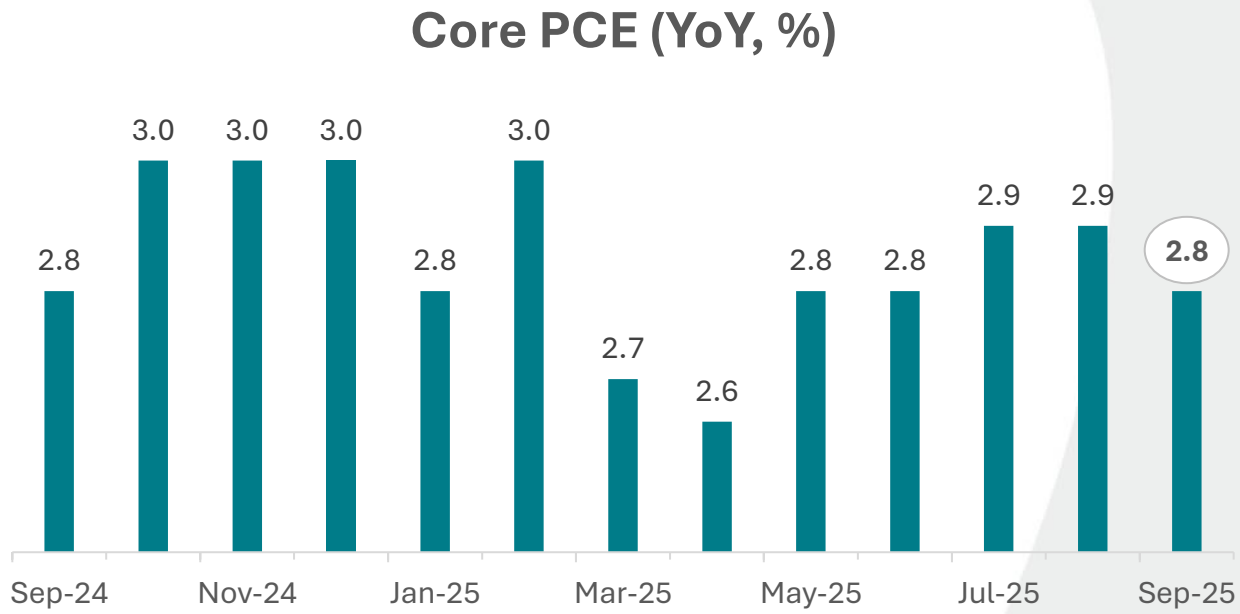


Source: Bureau of Labor Statistics

Core PCE – Fed's Key Inflation Gauge - September

- **Still steady, slight cooling.**
- **Up 0.2% in September**, same as August and right on expectations.
- **Year-over-year eased to 2.8%** (from 2.9%) as housing and financial services costs continued to soften.





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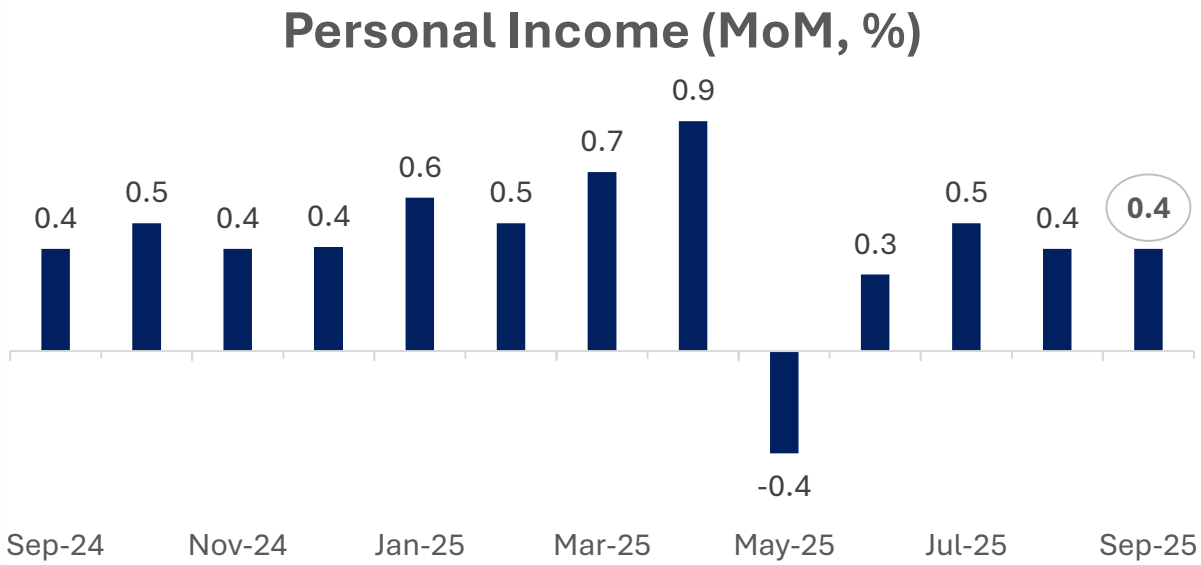
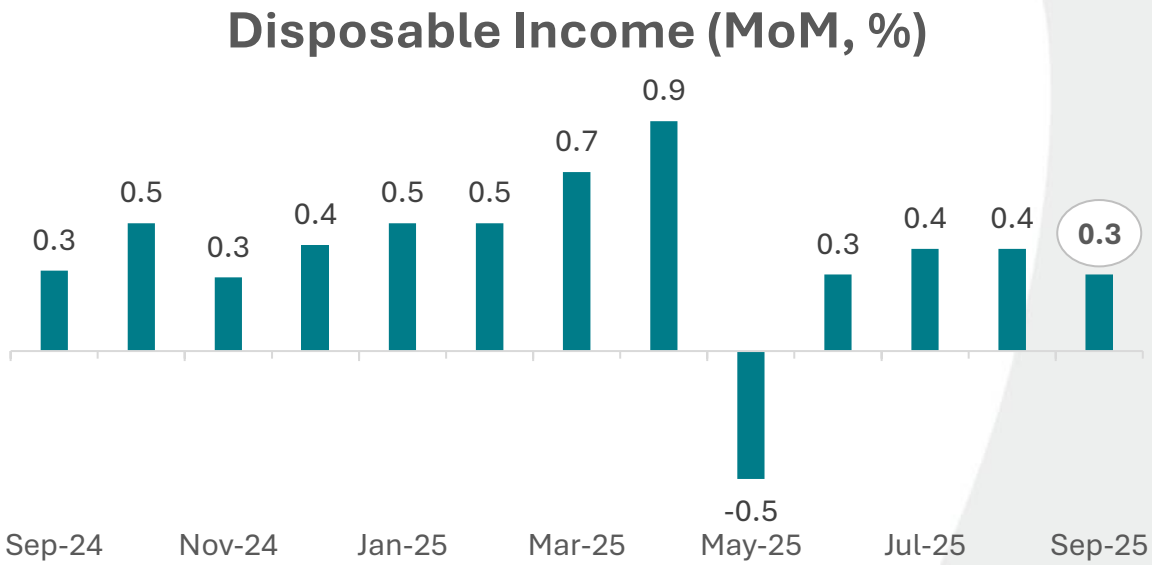
Source: Bureau of Labor Statistics

Consumer Activity

Personal & Disposable Income - September

- **Income stayed strong.**
- **Up 0.4%**, same as August and better than expected.
- Driven by wages, employer contributions, and dividends.

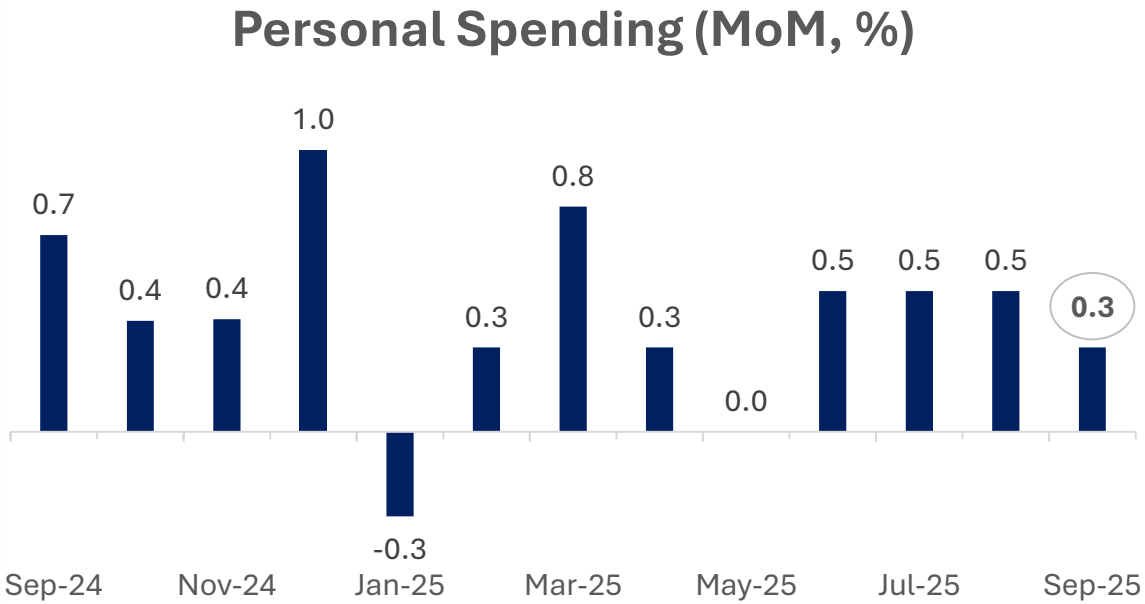


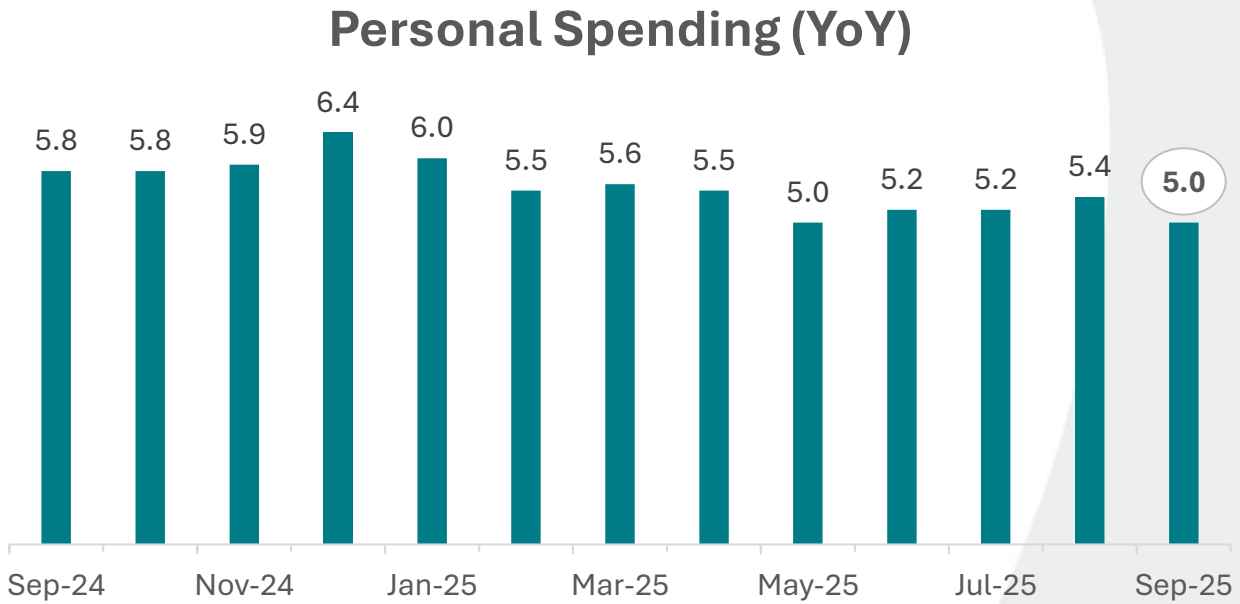


Source: Bureau of Labor Statistics

Consumer Spending - September

- **Spending cooled.**
- **Up just 0.3%**, down from 0.5% in prior months; services and nondurable goods rose 0.4%.
- **Goods spending hit lowest since May** as higher prices (+0.5%) weighed on cars and clothing.
- **Year-over-year up 5%**, weakest since Jan; real spending flat, slowest growth since early 2024.



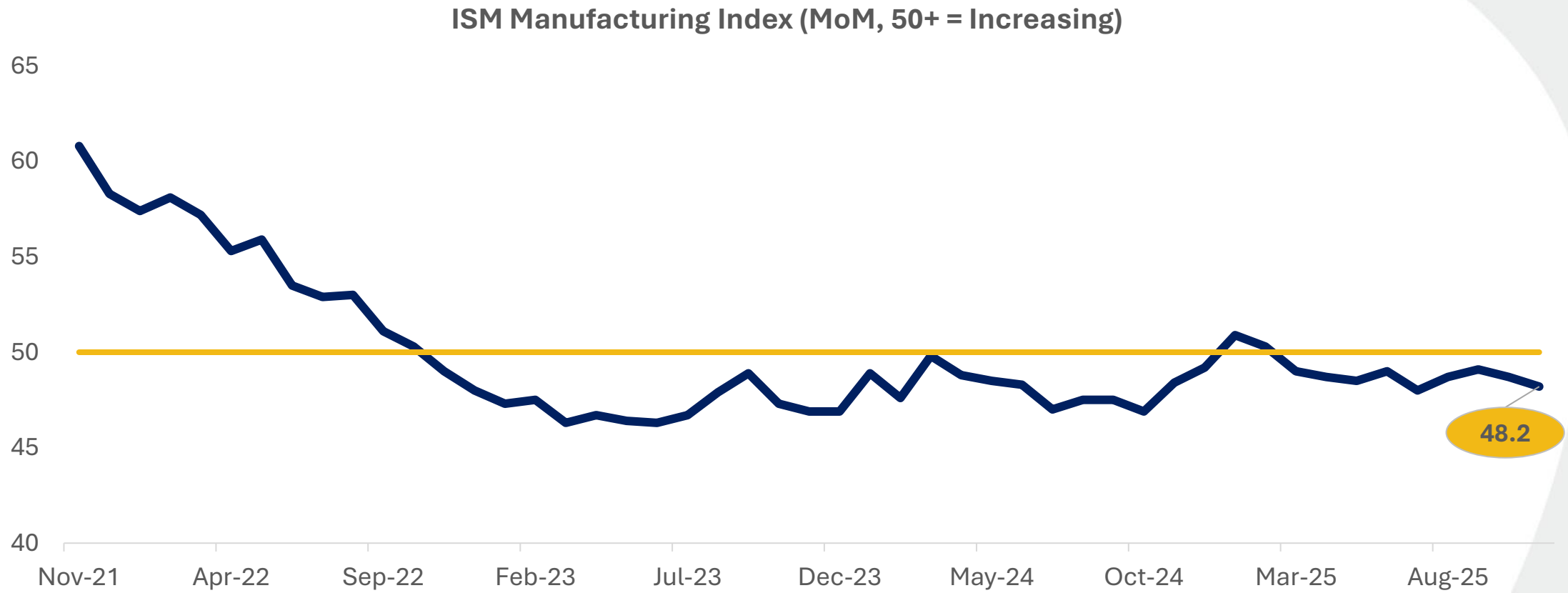


Source: Bureau of Labor Statistics

Manufacturing & Production

ISM Manufacturing Index - November

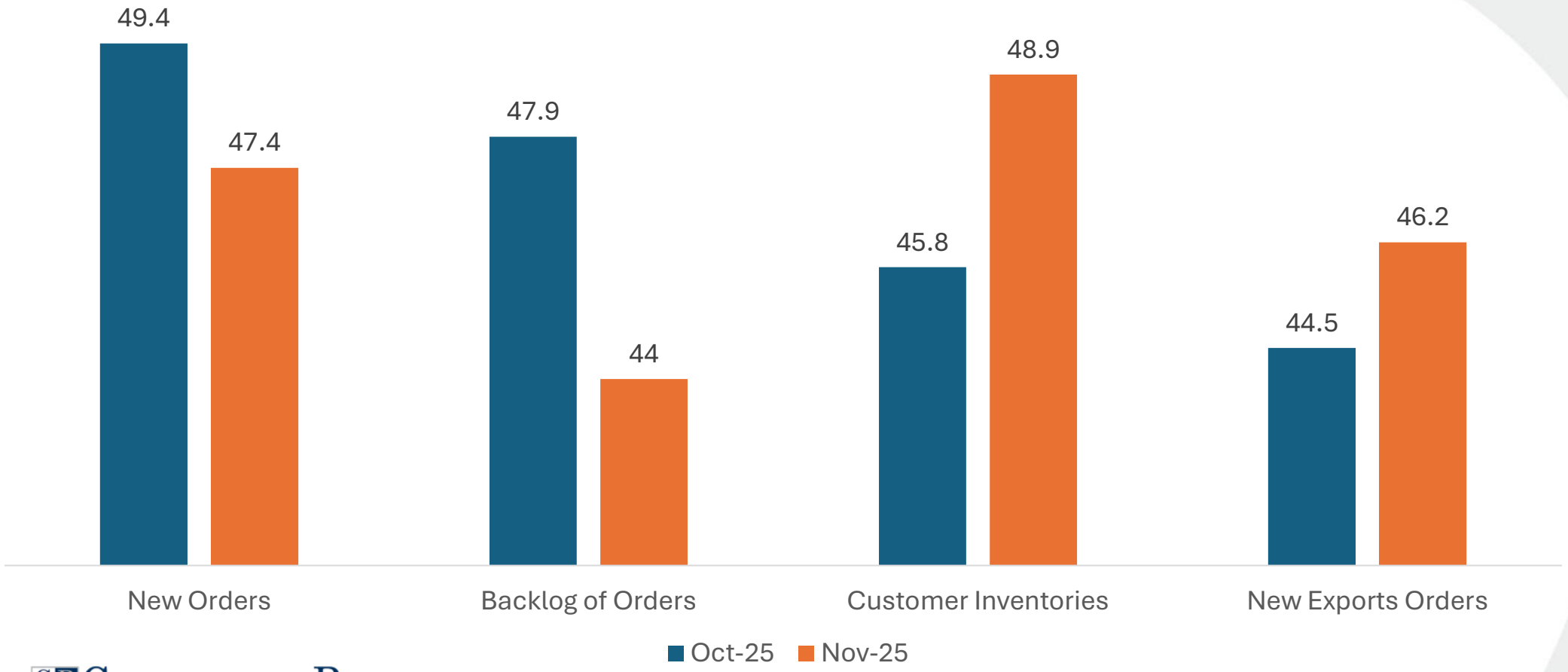
- **Manufacturing Weakness Continues:** ISM index fell to **48.2** in November, marking the sharpest decline in four months and ninth straight month of contraction.
- **Broader Economy Still Expanding:** Despite manufacturing softness, overall growth persists as the index remains above **42.3**, signaling continued economic expansion.



Source: Institute for Supply Management

ISM Manufacturing – Demand Indicators - November

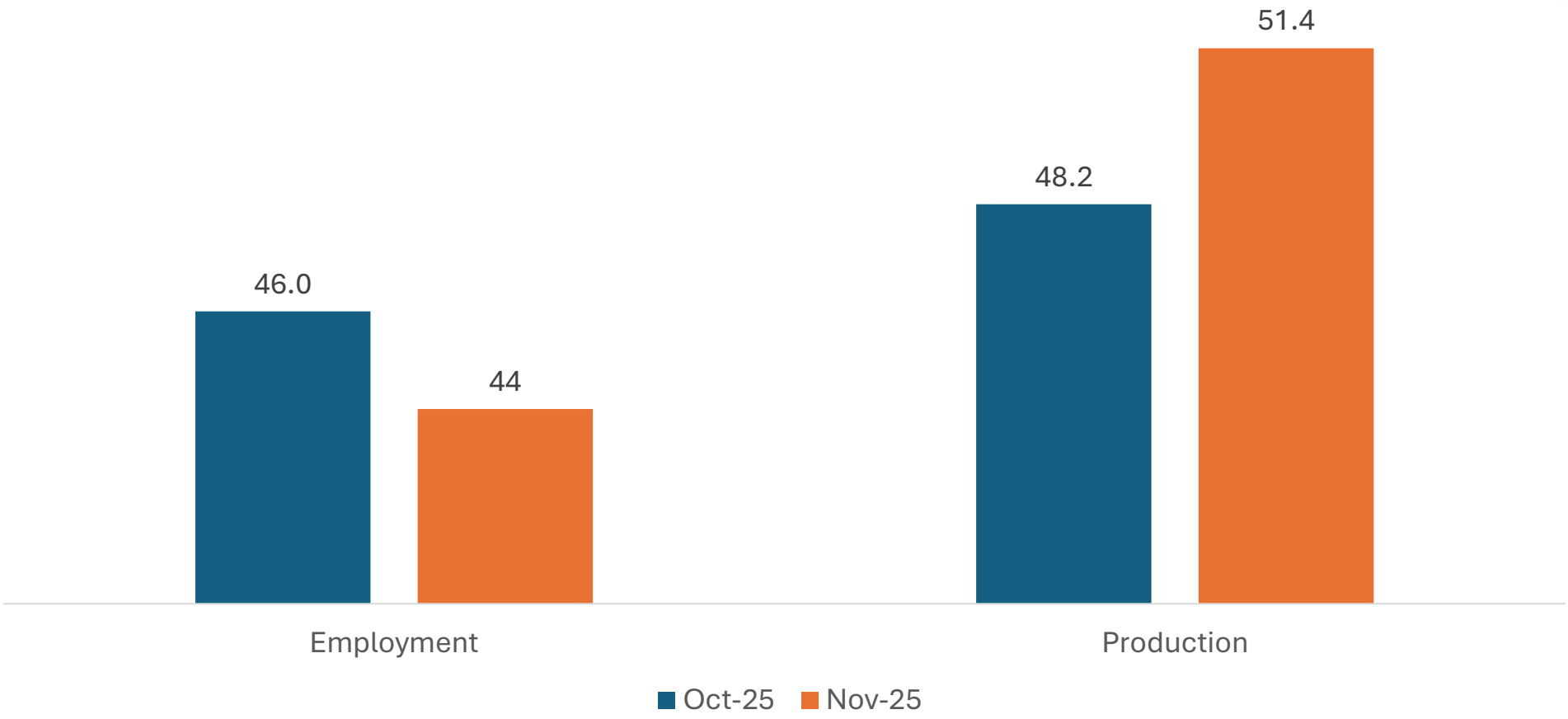
- **Demand Still Weak:** New orders fell at the fastest pace since July.
- **Backlogs Dropped:** Largest decline in seven months due to tariff uncertainty.
- **Partial Offset:** Gains in export orders and customer inventories helped.



Source: Institute for Supply Management

ISM Manufacturing – Output Indicators - November

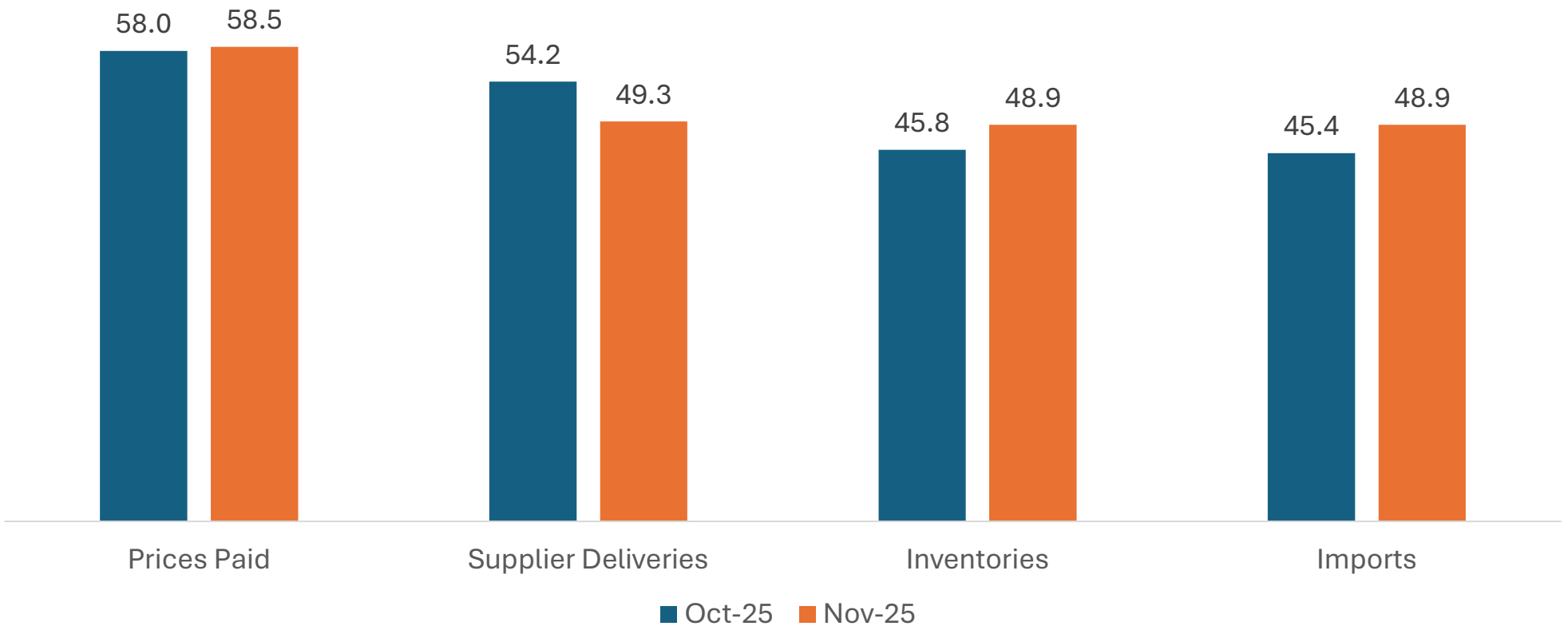
- **Mixed Output:** Production jumped into expansion—the strongest in four months.
- **Employment Weak:** Declined again, in contraction for the 10th straight month.
- **Reason:** Companies cutting staff amid uncertain demand.



Source: Institute for Supply Management

ISM Manufacturing – Input Indicators - November

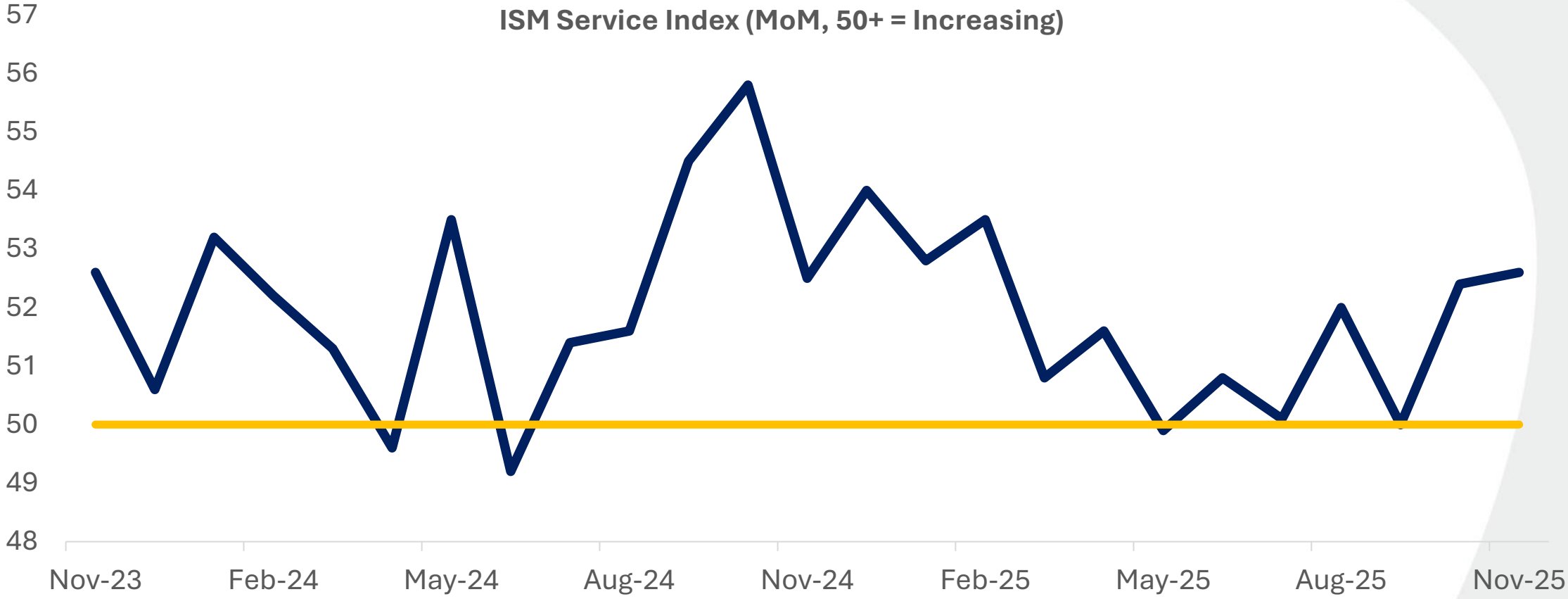
- **Inventories:** Still contracting, but at a slower pace (7 months negative).
- **Supplier Deliveries:** Faster after three months of delays.
- **Prices:** Up again—14th straight month of raw material cost increases.
- **Imports:** Contracting at a slower pace (8 months negative).



Source: Institute for Supply Management

ISM Services Index - November

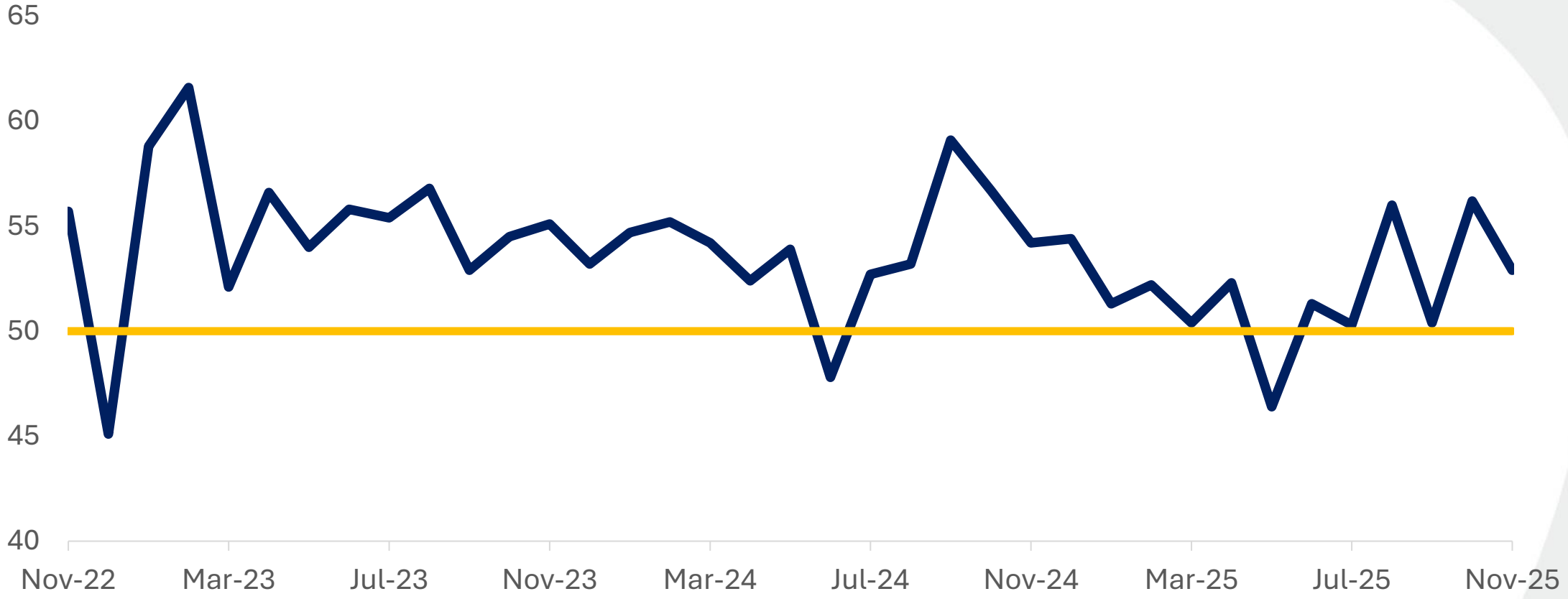
- **Services Sector Growth Continues:** ISM Services Index rose to **52.6** in November (6th straight month), beating expectations.
- **Drivers of Expansion:** Stronger business activity and longer supplier deliveries supported growth.
- **Industry Performance:** 12 industries expanded (led by retail, entertainment, food services); 5 contracted, including construction and real estate.



Source: Institute for Supply Management

ISM Services – New Orders- November

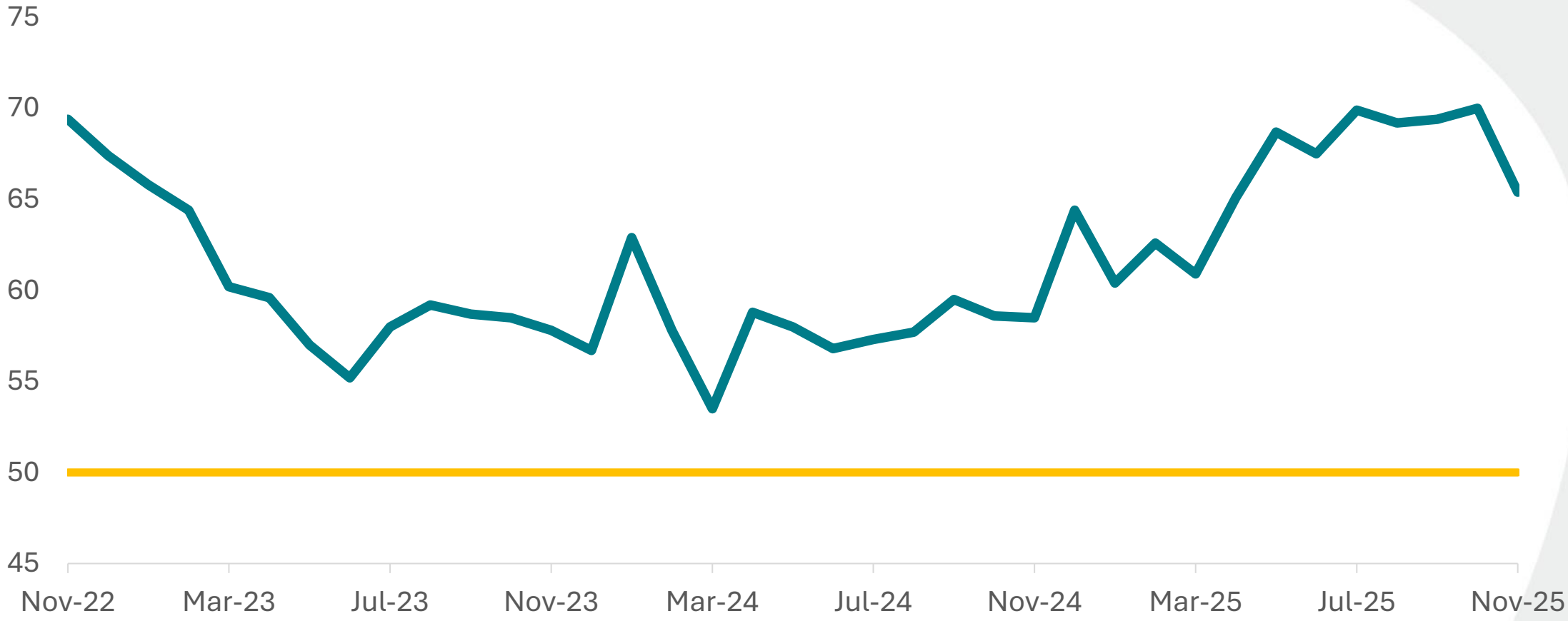
- **New Orders Slowed:** Fell to **52.9** from 56.2 but stayed in growth mode for **33 of the last 35 months.**
- **Forward-Looking Indicator:** Still positive—signals demand remains resilient despite cooling pace.



Source: Institute for Supply Management

ISM Services – Prices Paid - November

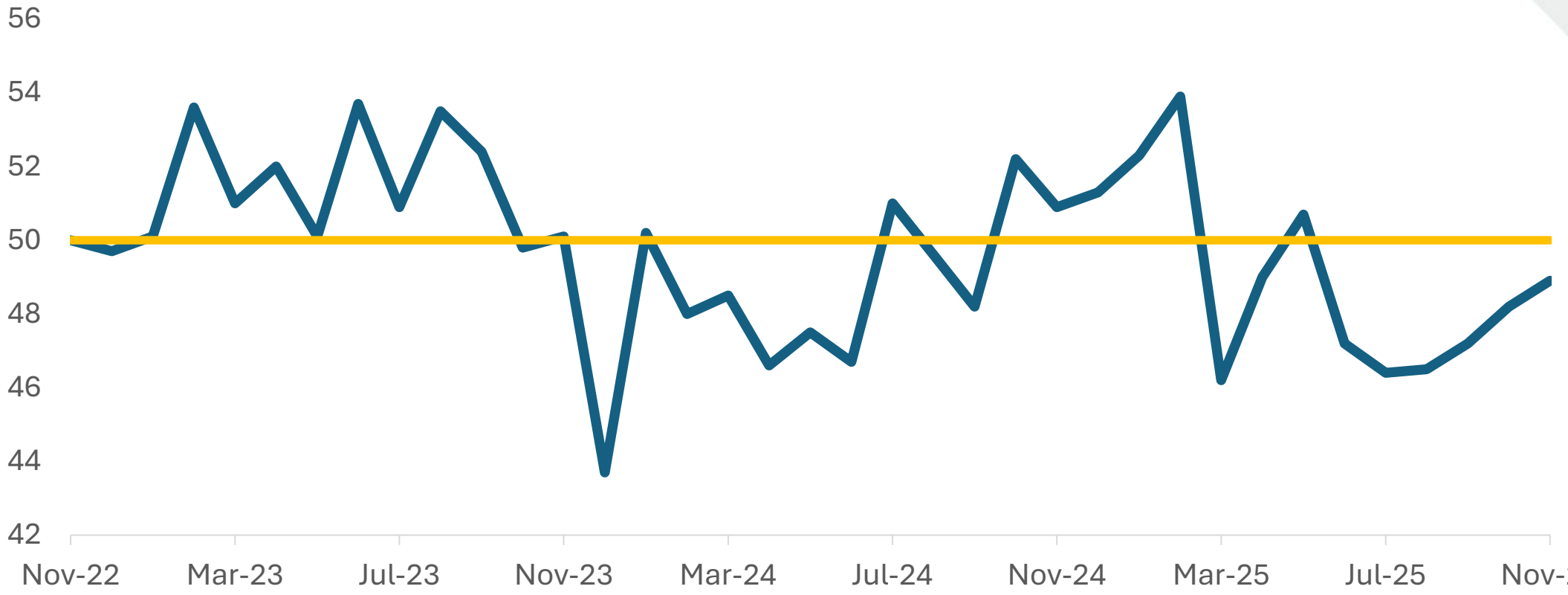
- **Prices Paid Still Rising:** Up for the 102nd straight month, but growth slowed to **65.4** from 70.0.
- **Inflation Pressure Easing:** Indicates cost increases are moderating compared to prior months.



Source: Institute for Supply Management

ISM Services – Employment- November

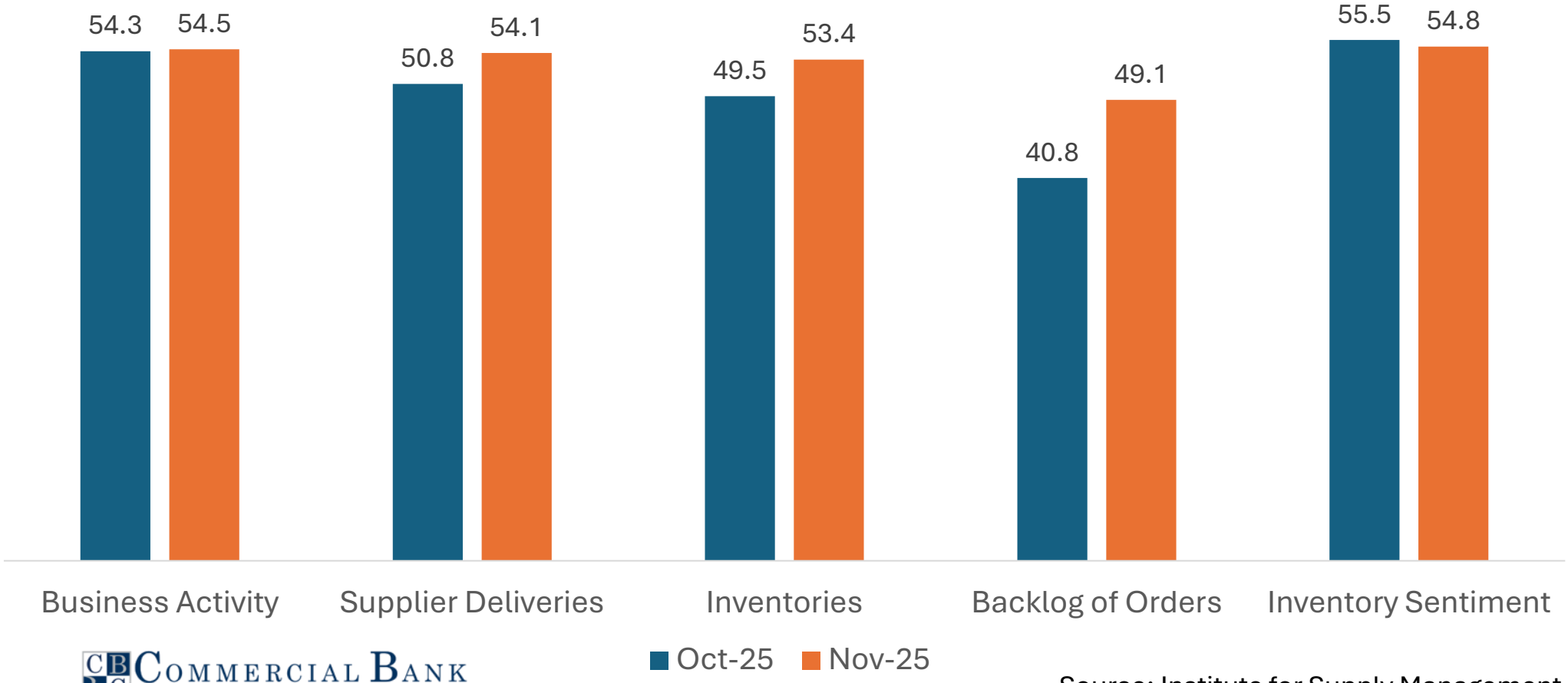
- **Employment Still Weak:** Contracted for the sixth straight month at **48.9**.
- **Declines Slowing:** Pace of job losses is easing, signaling early signs of stabilization.



Source: Institute for Supply Management

ISM Services – Other Surveys- November

- **Business Activity:** Up to **54.5**, highest in 3 months – momentum building.
- **Supplier Deliveries:** Slowed to **54.1**, longest since Oct 2024, partly due to disruptions and tariffs.
- **Backlogs & Inventories:** Backlogs jumped to **49.1** (biggest since mid-2022); inventories back in growth at **53.4**.

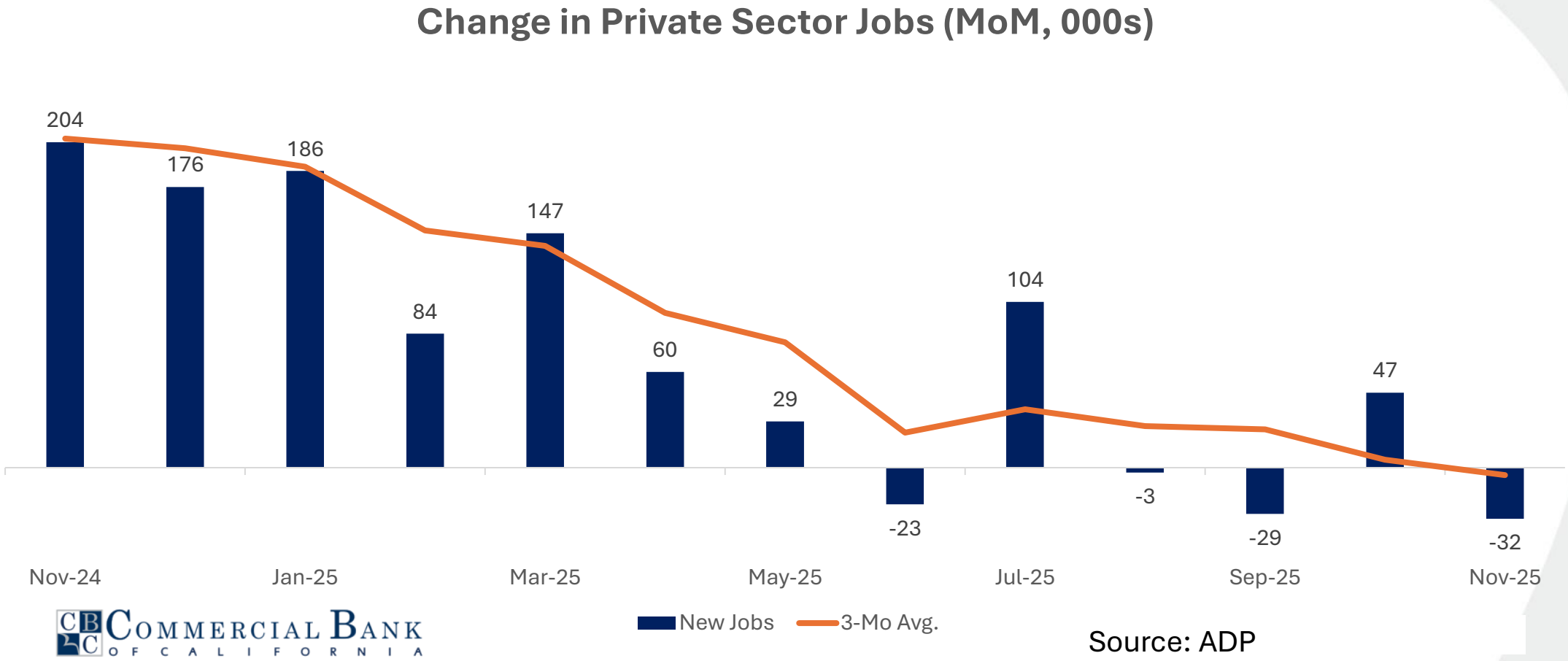


Source: Institute for Supply Management

Employment – Private Data

ADP Report - November

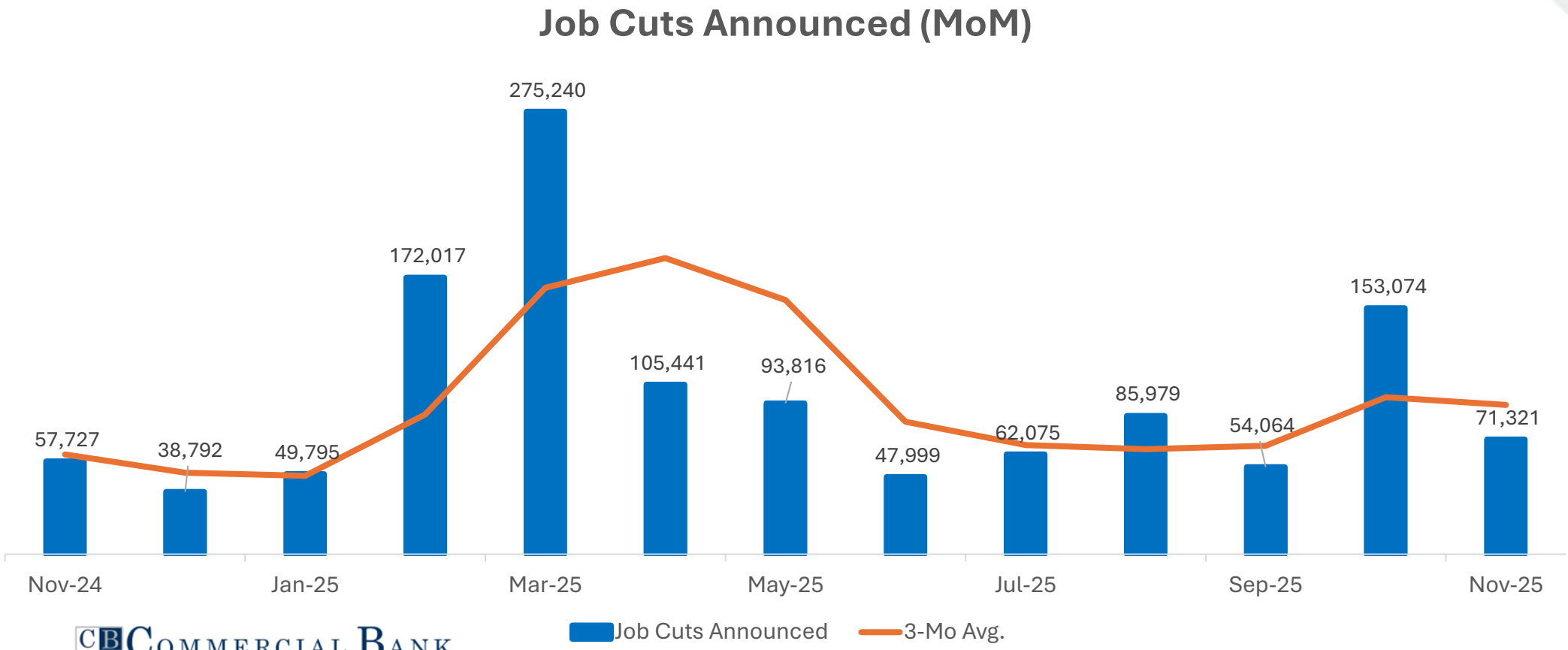
- **Payrolls down 32K in Nov,** biggest drop since Mar 2023; 4 declines in 6 months.
- **Small businesses shed 120K jobs,** while medium/large added; losses led by services, info, manufacturing.
- **Key for FOMC meeting next week:** Jobs report comes after meeting, making this data critical.



Source: ADP

Challenger Report - November

- **Job cuts surged in November**: 71,000 announced, the highest November in three years, driven by telecom and tech sectors.
- **Hiring plans hit historic lows**: Down 35% year-to-date, with seasonal hiring at its weakest since 2012 and no new holiday hires announced.

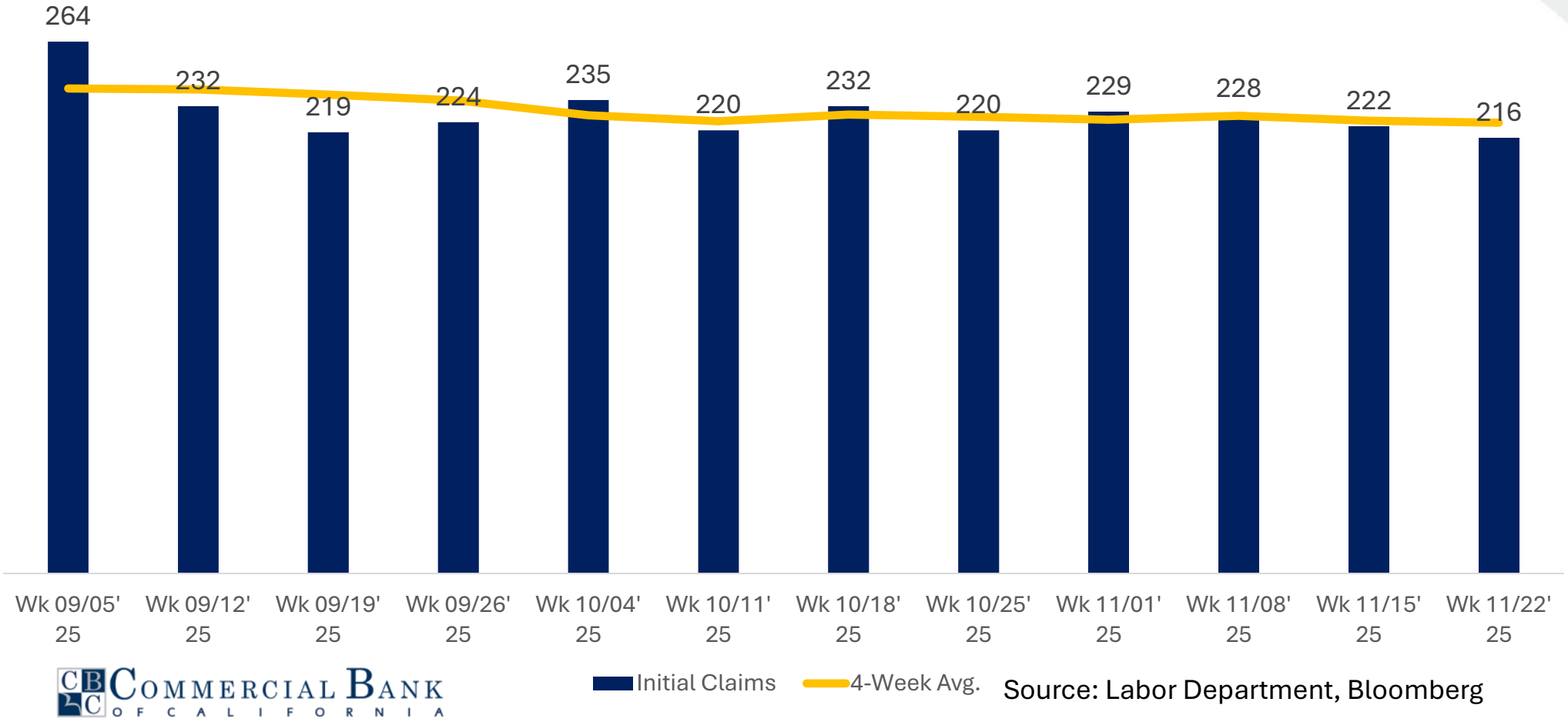


Source: Challenger, Gray & Christmas

Employment - Weekly

Weekly Initial Jobless Claims (000s) – Week Ending 11/29/25

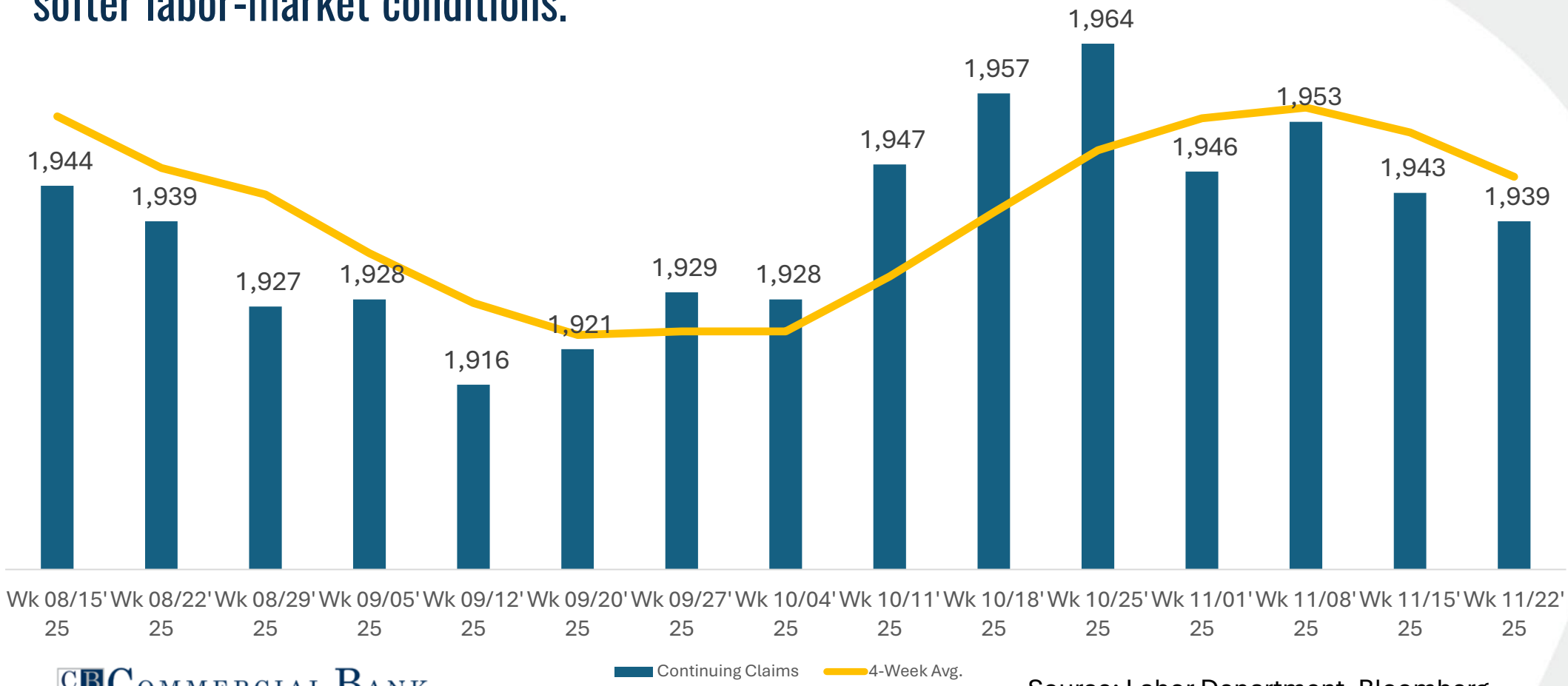
- **Initial jobless claims dropped to 191,000**, the lowest since September 2022 and well below expectations.
- **Businesses are holding onto workers**, with the four-week average down to about 215,000 despite holiday distortions.



Source: Labor Department, Bloomberg

Weekly Continuing Jobless Claims (000s) – Week Ending 11/22/25

- **Continuing claims dipped to 1.94 million**, slightly below forecasts, signaling fewer people on unemployment benefits.
- **Longer job searches persist**, with the four-week average easing to 1.945 million, pointing to softer labor-market conditions.

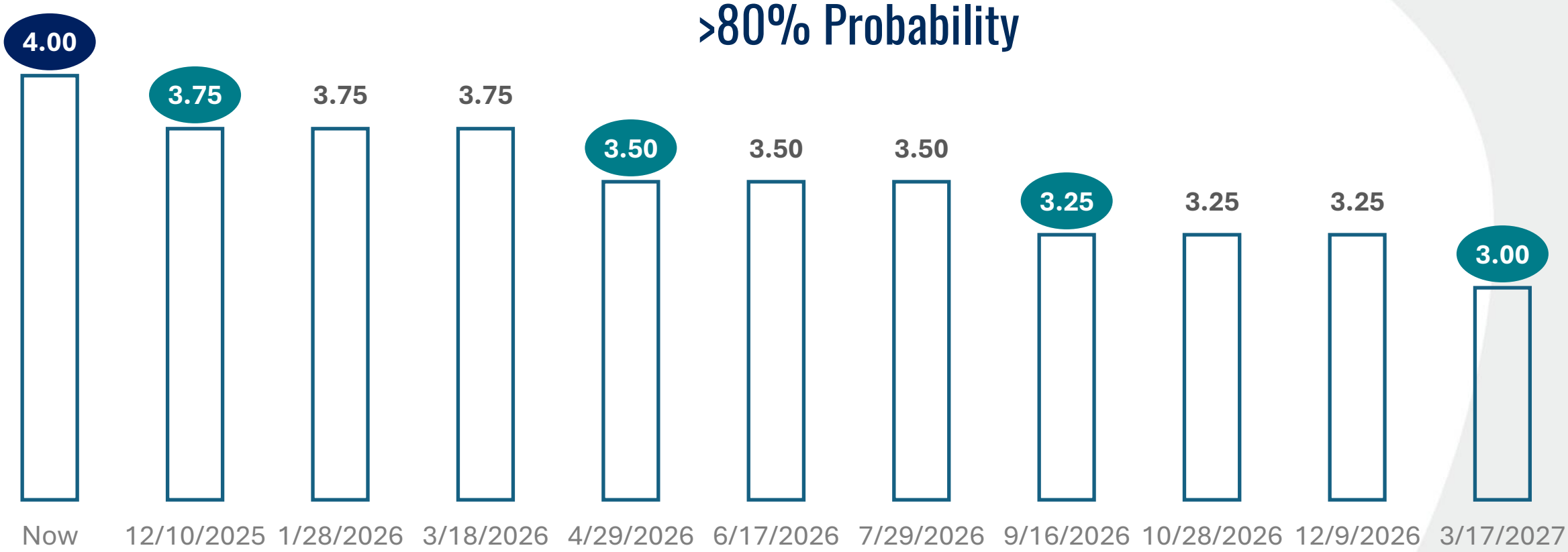


Source: Labor Department, Bloomberg

Rate Cut Expectation & Treasury Yields

Rate Cut Expectation – 12/5/25

- **Dec FOMC**: Cut odds up to **96%** (from 83%)
- **2026:** Two **25 bps cuts** priced in (April & Sept)
- **Mar 2027**: One 25 bps cut
- Cuts would lower Fed funds upper bound to **3.00%** (from 4.00%)

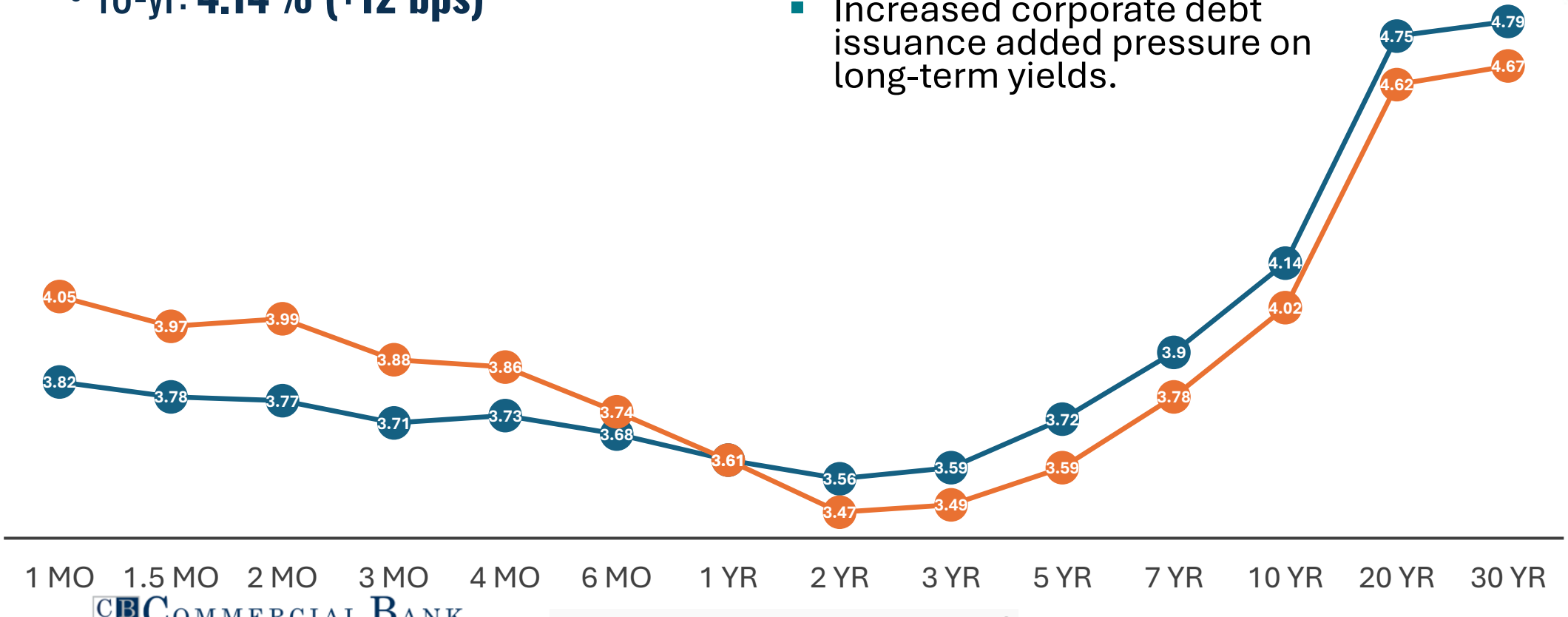


Source: Bloomberg

Treasury Market – Week Ending 12/5/25

- **Treasury yields mixed; curve steepens:**
  - 2-yr: **3.56% (+9 bps)**
  - 5-yr: **3.72% (+13 bps)**
  - 10-yr: **4.14% (+12 bps)**

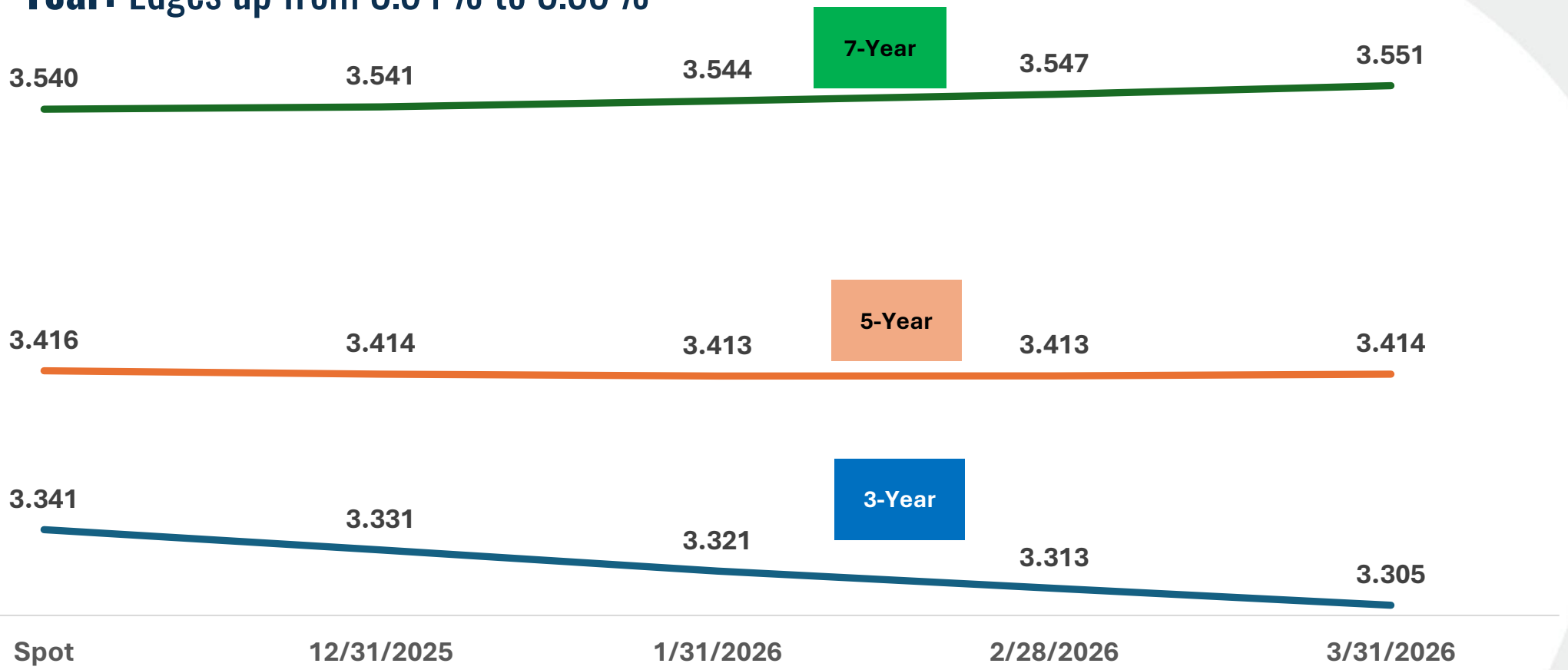
- **Key drivers:**
  - Softer spending and inflation data boosted Fed cut expectations.
  - Anticipated BOJ hikes shifted flows to Japanese bonds.
  - Increased corporate debt issuance added pressure on long-term yields.



Source: Department of Treasury

US Treasury Forward Rates (%) - 12/5/25

- **Short-Term Yields Ease; Long-Term Steady to Slightly Higher**
- **3-Year:** Declines from 3.34% to ~3.30% by March
- **5-Year:** Holds steady near 3.41%
- **7-Year:** Edges up from 3.54% to 3.55%



Source: Bloomberg

Key Takeaways

Recap I

- **Inflation** steady at 2.8% but slowing income and spending signal cooling demand—keeping the Fed cautious on rate cuts.
- **Manufacturing** remains in **contraction**, with weak demand and ongoing cost pressures despite slight production improvement.
- **Services sector** shows **resilience** with steady growth, softer price pressures, and continued labor challenges.

Recap II

- **Private-sector jobs fell sharply**, led by small business cuts, signaling a weakening labor market and easing wage pressures.
- **Job cuts announced hit a three-year high in November,** while hiring plans plunge to the lowest level since 2010—signaling growing labor market caution.
- **Jobless claims hit their lowest** since 2022, showing strong job retention, though slower rehiring looms ahead.

Questions?