



### **A Year Defined by Caution, Not Collapse**

The U.S. economy in 2025 moved through a clear transition phase. Inflation continued to cool, the Federal Reserve maintained a restrictive stance for most of the year, and consumers grew increasingly cautious. While fears of a sharp downturn never fully materialized, **confidence weakened steadily**, and borrowing costs remained high enough to restrain spending and investment.

### **Consumer Confidence: A Steady Erosion Through 2025**

Consumer sentiment started 2025 on a relatively strong footing, hovering near **70 in the first quarter**, but deteriorated as the year progressed. Persistent inflation, elevated interest rates, and economic uncertainty pushed confidence lower month after month. By late summer, sentiment had fallen into the mid-50s, reaching a **year-low of 51.0 in November** before a modest rebound to **52.9 in December**.

This pattern signals a consumer base that is **financially strained and increasingly defensive**, prioritizing essentials, reducing discretionary spending, and remaining skeptical about near-term economic improvement.

**Why it matters:** Weak sentiment typically translates into slower consumer spending, which can dampen economic growth even as inflation improves.

### **Interest Rates: Restrictive Early, Gradually Easing Late**

The **U.S. Prime Lending Rate** tells the other half of the 2025 story. Rates remained elevated at **8.50% through the first half of the year**, reflecting the Federal Reserve's commitment to containing inflation. As inflation cooled and economic momentum softened, borrowing costs began to ease mid-year.

By early fall, the prime rate had declined to **7.25%**, and following the Fed's December rate cut, it dropped further to **6.75%**. While this marks a meaningful shift, rates remain well above pre-pandemic norms.

**Why it matters:** Credit conditions are improving, but debt is still expensive — especially for households carrying variable-rate balances.

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### **Inflation in 2025: Drifted lower but is still stubbornly above the Fed's target**

Inflation has improved from the beginning of the year but **sticky components like housing, services, and wages** are likely to keep price pressures above the Fed's long-term target for longer than many expect.

**Why it matters:** Pricing pressure will remain on the essentials (rent, healthcare, etc.). Purchasing power remains a priority — especially for savers holding idle cash.

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