

Economy Flashes Mixed Signals

Consumer Strength Offset by Labor Market Weakness

The economy is giving mixed signals to start the new year. Certain indicators are downright rosy. Gross domestic product, for instance, expanded at a blistering 4.3% annualized pace in the third quarter of 2025. That growth, the fastest since 2023, was led by strong consumer spending, and more timely data show that retail spending was stronger than expected in November.

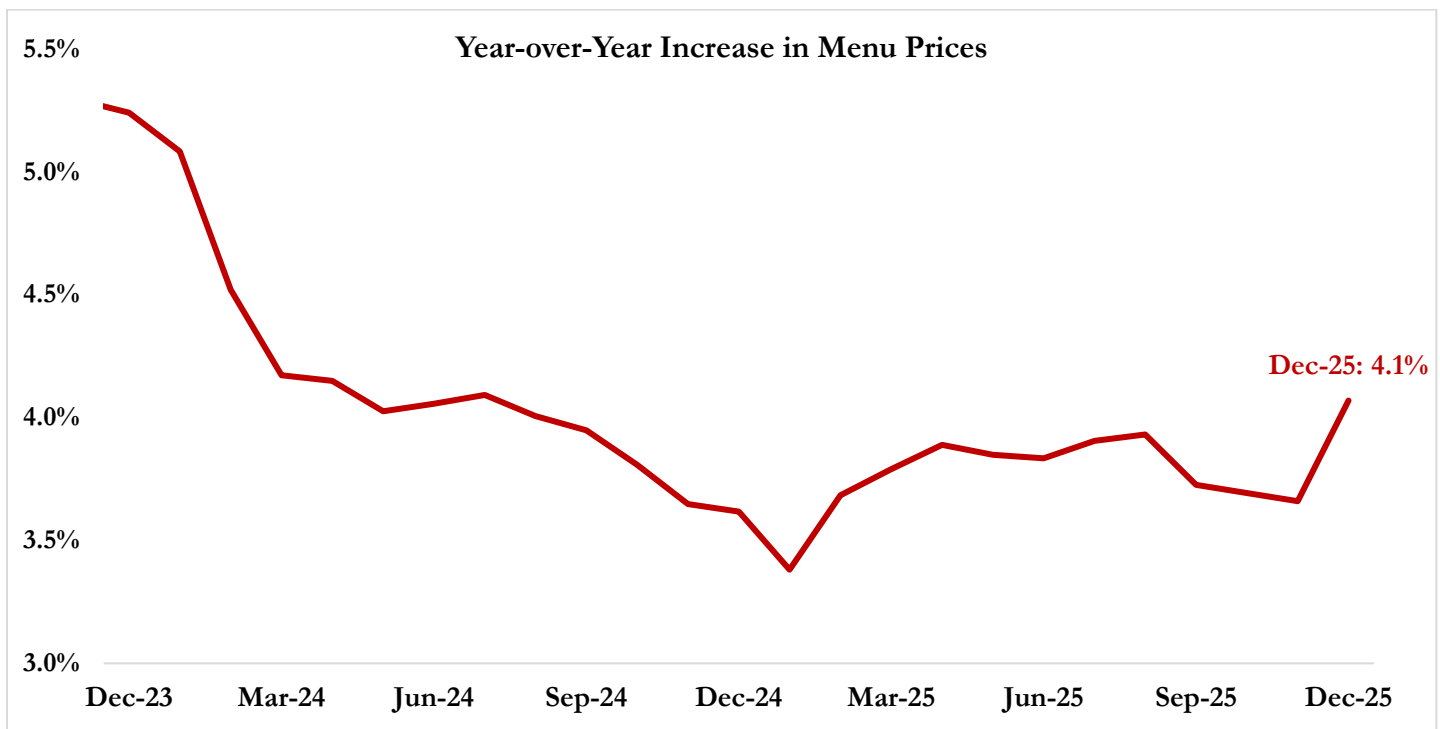
Recent inflation data are also a reason for optimism, with consumer prices increasing at a slower than expected pace in both November and December. Prices are still up 2.7% year-over-year, well above the Fed's 2.0% target rate, but that's a sizeable improvement from September's 3.0% year-over-year rate of inflation. That's the good news.

The bad news is that the labor market continues to weaken. Total U.S. employment actually declined by 67,000 jobs during the fourth quarter of 2025. That had a lot to do with Federal government layoffs and retirements that officially took effect in October, but private sector hiring has also been anemic.

Data are similarly conflicted for the food services industry. Spending at restaurants and bars posted strong gains in November, the most recent month for which data are available, and was up 5.4% year-to-date through the first eleven months of 2025. The downside is that those gains look far less impressive after adjusting for menu price escalation; prices for food away from home were up 4.1% between December 2024 and 2025, the largest annual jump in over a year.

Three Key Takeaways

1. The economy has grown briskly in recent quarters, and consumers continue to spend.
2. The labor market remains weak, and job growth was virtually nonexistent during Q4 2025.
3. Restaurant spending has risen rapidly, as have restaurant prices.



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, Food Away from Home

What Could Go Wrong in 2026?

The most obvious risk factor in 2026 is economic policy. While already-enacted changes, specifically to businesses and personal tax deductions, will serve as an economic tailwind, several recent proposals could derail this expansion.

First, the White House recently announced that credit card interest rates would be capped at 10% starting on January 20th, a proposal that has been supported by a small but vocal share of legislators on either side of the aisle.

Noting that it's unclear how the White House intends to enact this policy — current announcements amount to more of a firm request than a legal requirement — this would have a disastrous effect on consumer spending.

Average credit card interest rates have never dipped below 10% (this data dates back to 1995), meaning that the proposal would bring them to an unprecedentedly low rate. Banks would respond by drastically lowering credit limits or canceling entire accounts, especially for borrowers with lower credit scores.

In the unlikely event this becomes law, there would be a sharp contraction in consumer credit access and a similar decline in consumer spending, especially from lower income households. That would put considerable strain on economic growth.

Trade policy also represents a risk factor in 2026. While current tariff rates are significantly lower than what was initially proposed in April 2025, ongoing changes and the associated uncertainty continue to cause headaches for businesses.

That's heightened by a looming Supreme Court ruling that could invalidate any tariffs authorized via the International Emergency Economic Powers Act, especially considering that the White House has indicated plans to replace any invalidated tariffs through other means.

Restaurant Hiring, and Labor Costs, Accelerate

While economywide job growth slowed to a crawl in 2025, restaurants added new employees at a brisk pace, especially in the second half of the year. From July to December, restaurant and bar employment increased by 153,700 positions. That's the industry's fastest six-month growth in 2.5 years.

That rapid hiring has come with a literal cost; average hourly earnings for nonsupervisory restaurant employees surged 1.0% in November and are up nearly a full \$1.00 over the past year.

Labor Market Remains Fragile

Hiring was historically slow in 2025. Employers, whether due to productivity gains or, far more likely, heightened economic uncertainty, simply didn't add many new employees over the past 12 months.

That is not particularly unusual, but layoffs were also historically uncommon over this period. This relatively unprecedented dynamic—very little hiring or firing—has put the labor market in a uniquely fragile position.

If hiring accelerates at some point in 2026, then the economy will emerge from this situation with little lasting damage; the unemployment rate is up just 0.3 percentage points over the past year and, at 4.4%, remains low by historical standards.

If, however, layoffs accelerate to even a historically normal pace, unemployment will surge, making an economic downturn likelier than not.

Grocery Prices Surge

Consumer prices for food at home (i.e., from grocery stores) jumped 0.7% in December. That's the largest one-month increase since mid-2022, when overall inflation was running at an 8.0% annual pace. While some of the factors that contributed to this rapid increase are also likely to put upward pressure on menu prices, higher grocery prices may make restaurants look relatively more affordable to consumers.

The Outlook

Despite a weak labor market and several risk factors, economic growth should continue through the first half of 2026. Tax policy changes mean that refunds will be significantly larger than normal in 2026, and that infusion of cash will act as a stimulus over the next few quarters. That, on top of the U.S. consumer's seemingly insatiable appetite for spending, should keep restaurant sales elevated in the near-term.

Industry at a Glance

	Value			Change From		Forecast
	Dec-25	Nov-25	Dec-24	Nov-25	Dec-24	Jan-26
Labor Market						
Payroll Employment (thousands)	159,526	159,476	158,942	0.0%	0.4%	159,588
Average Hourly Wages	\$37.02	\$36.90	\$35.68	0.3%	3.8%	\$37.13
Unemployment Rate	4.4%	4.5%	4.1%	-0.1 pp	0.3 pp	4.5%
Labor Force Participation Rate	62.4%	62.5%	62.5%	-0.1 pp	-0.1 pp	62.4%
Retail Sales (\$ Millions)	Nov-25	Oct-25	Nov-24	Oct-25	Nov-24	Dec-25
Retail & Food Services Sales	\$735,904	\$731,412	\$712,175	0.6%	3.3%	UP
Grocery Stores	\$77,075	\$76,999	\$74,884	0.1%	2.9%	UP
Food Services & Drinking Places	\$100,253	\$99,676	\$95,607	0.6%	4.9%	UP
Consumer Price Index	Dec-25	Nov-25	Dec-24	Nov-25	Dec-24	Jan-26
Food and Beverages	341.6	339.4	331.6	0.7%	3.0%	UP
Food at Home	317.1	314.8	309.8	0.7%	2.4%	UP
Food Away from Home	389.9	387.2	374.6	0.7%	4.1%	UP
Producer Price Index	Nov-25	Oct-25	Nov-24	Oct-25	Nov-24	Dec-25
Food Wholesaling	157.9	159.8	151.2	-1.2%	4.5%	UP
Food Manufacturing	269.8	270.5	262.2	-0.3%	2.9%	UP
Frozen Food Manufacturing	186.4	186.4	185.5	0.0%	0.5%	UP
Pork Products Except Sausage	191.3	192.7	179.8	-0.7%	6.4%	UP
Beef & Veal Products, Fresh or Frozen	371.1	375.2	322.4	-1.1%	15.1%	UP
Processed Poultry	182.4	180.8	186.5	0.9%	-2.2%	UP
Processed Fruits & Vegetables	302.5	303.0	292.8	-0.2%	3.3%	UP
Truck Transportation	192.8	191.9	177.7	0.4%	8.5%	UP
Chicken Eggs	343.3	323.3	623.9	6.2%	-45.0%	FLAT
Crude Oil WTI (NYM \$/bbl)	1/2/26	12/5/25	1/3/25	12/5/25	1/3/25	Feb-26
Front Month Crude Oil Price	\$57.54	\$59.48	\$73.15	-3.3%	-21.3%	FLAT
Real Gross Domestic Product	2025-Q3	2025-Q2	2025-Q1	-	-	2025-Q4
% Change from Preceding Period	4.3%	3.8%	-0.6%	-	-	2.8%
Personal Consumption Expenditures (\$ Billions)	Sep-25	Aug-25	Sep-24	Aug-25	Sep-24	Oct-25
Total PCE	\$21,207	\$21,127	\$20,148	0.4%	5.3%	UP
Food PCE	\$1,540	\$1,542	\$1,495	-0.1%	3.0%	UP

Glossary

Indicator	Source	Definition/Notes
Labor Market Terms		
Payroll Employment	Bureau of Labor Statistics (BLS); Current Employment Statistics (CES) Survey, also known as the Establishment Survey	Payroll employment, also commonly known as Total Nonfarm or Total Nonfarm Payroll, is a measure of the number of U.S. workers in the economy that excludes proprietors, private household employees, unpaid volunteers, farm employees, and the unincorporated self-employed. This measure accounts for approximately 80% of the workers who contribute to Gross Domestic Product (GDP) and provides useful insights into the current economic situation because it can represent the number of jobs added or lost in an economy.
Average Hourly Wages	BLS; CES/Establishment Survey	Average hourly wages, (or average hourly earnings) reflect the average gross earnings per hour among all payroll employees across all private industries in a given month. Average hourly wages are measured as gross payrolls divided by total hours for which employees receive pay—including sick pay or vacation pay—during the pay period that includes the 12th of the month. Average hourly wages are not a measure of total compensation or employers' total compensation costs because they exclude items such as employee benefits, irregular bonuses and commissions, retroactive payments, and the employer's share of payroll taxes.
Unemployment Rate	BLS; Current Population Survey (CPS), also known as the Household Survey	The unemployment rate represents the number of unemployed people as a percentage of the labor force (the labor force is the sum of the employed and unemployed).
Labor Force Participation Rate	BLS; CPS/Household Survey	The labor force participation rate is the percentage of the population that is either working or actively looking for work. In technical terms, it is the number of people in the labor force as a percentage of the civilian noninstitutional population.
Retail Sales		
Retail Sales	Census Bureau; Advance Monthly Retail Trade Survey	Retail sales are estimates of monthly sales for companies in the retail trade and food services sectors. Estimates are derived from the Advance Monthly Retail Trade Survey which is a voluntary survey covering retail companies with one or more establishments that sell merchandise and related services to final consumers. These firms provide data on dollar value of retail sales for selected establishments.
Price Indices		
Consumer Price Index	BLS; Consumer Price Index (CPI) program	The Consumer Price Index (CPI) program measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI measures price changes from the perspective of the consumer.
Producer Price Index	BLS; Producer Price Index (PPI) program	The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The PPI measures price changes from the perspective of the seller.
Gross Domestic Product		
Real Gross Domestic Product	Bureau of Economic Analysis (BEA); National Income and Product Accounts (NIPA)	Gross domestic product (GDP) is the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment. Real GDP values are inflation-adjusted estimates—that is, estimates that exclude the effects of price changes.
Personal Consumption Expenditures		
Personal Consumption Expenditures	BEA; NIPA	Consumer spending, or personal consumption expenditures (PCE), is the value of the goods and services purchased by, or on the behalf of, U.S. residents. PCE shows how much of the income earned by households is being spent on current consumption as opposed to how much is being saved for future consumption.