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Morning Briefing

On CBO Outlook, Korea's Troubles & S&P 500 Earnings

Check out the accompanying [chart collection](#).

Executive Summary: The Congressional Budget Office envisions a late-cycle slowdown of the US economy, with sharply lower labor force growth and budget deficits rising as GDP growth slows. Melissa shares highlights from the CBO's September forecast and the BLS's recent report on the shrinking share of foreign-born workers in the US labor force. ... Also: South Korea's economy is not up to meeting Trump's tariff demands, William reports; an economic collapse is a real danger if they remain in force. ... Joe reports that analysts' estimate revisions activity for S&P 500 companies has staged a sudden, strong, and broad rebound—supporting the stock market's recent strength.

US Economy I: CBO Envisions Late-Cycle America. Economist Steven Miran—the newest Trump-appointed Federal Reserve governor and the lone dissenter from the FOMC's majority decision to cut the federal funds rate by 25bps at its September meeting—supports his call for jumbo rate cuts by citing Congressional Budget Office (CBO) economic estimates. Like the CBO, Miran sees underwhelming GDP growth ahead. But Miran has argued for the Fed to cut rates by 1.0-1.5 ppts during the second half of 2025 versus the CBO's 0.75 ppts expectation.

The CBO's September 2025 [Current View of the Economy](#) shows the US economy at a turning point. After running hot through 2024, growth is expected to slow sharply from 2025 through 2028, inflation to stay at or above the Fed's target, and labor force growth to be restrained by slower immigration and demographic factors. Next year, the CBO expects the stimulus from revived tax cuts and fiscal spending in the 2025 One Big Beautiful Bill Act to help offset the drag from higher tariffs and unsupportive interest rate and labor force growth environments. This mix of slower growth, sticky prices, and shifting fiscal levers marks an economy in transition from a post-pandemic recovery/expansion into a late-cycle slow growth environment, the CBO's narrative goes.

Here's more from the CBO's forecast:

(1) *Growth*. The CBO's September forecast shows real GDP growth slowing to about 1.4% y/y in 2025 (down from 1.9% projected in January), rebounding to 2.2% y/y in 2026 (1.8%), then stabilizing at 1.8% y/y in 2027-28 (1.8%-1.7%).

Fiscal stimulus from new tax cuts and spending in the One Big Beautiful Bill Act counterbalance trade restrictions. But over the long run, the increase in fiscal spending crowds out private investment, putting upward pressure on deficits and interest rates.

(2) *Inflation*. Through 2028, the CBO forecasts that PCE inflation will remain above or at the Fed's 2.0% goal. PCE inflation stays around 3.1% in 2025, falls to 2.4% in 2026, then moves toward 2.0% in 2027-28.

Tariffs, government borrowing, and wage pressures keep prices elevated early on. Inflation eases in 2026 as the rise in inflation from tariffs recedes. It eases further as aggregate demand cools.

(3) *Labor*. Unemployment rises slightly to 4.5% in 2025, improves to 4.2% in 2026, then drifts near 4.4%. The CBO sharply lowered its labor force growth projection because of reduced immigration and aging demographics, trimming real potential GDP (i.e., the max sustainable level of production) without specifying the amount.

(4) *Monetary policy*. The CBO believes the Fed will ease but stay restrictive by recent standards, implying tighter financial conditions. It sees the ten-year Treasury bond yields holding near 4.3% in 2025, only gradually easing to 3.9% by 2028.

The CBO projects that the Fed will continue easing policy modestly—cutting the federal funds rate by about 75bps over five months, from 4.3% during August 2025 to 3.6% by January 2026, but keeping it above 3.0% through 2028.

(5) *Fiscal policy*. Recent legislation makes several 2017 tax cuts permanent while adding family credits and new defense and immigration enforcement spending. This supports economic growth in 2026, but also widens federal deficits. The CBO sees deficits rising as the pace of GDP growth slows—suggesting a late-cycle American economy.

US Economy II: Foreign-Born Share Slides. The Bureau of Labor Statistics' (BLS) May 2025 [report](#) on foreign-born workers' labor force characteristics reinforces the CBO's expectation that weaker labor force growth will restrain economic growth. Taken together, the recent slippage in the foreign-born labor supply and US firms' reliance on lower-cost

foreign-born workers point to weaker productivity gains and rising labor costs ahead, the narrative goes.

Having fewer foreign-born workers in the labor market reduces the supply of relatively flexible labor that fills both high- and low-skill gaps, slowing the reallocation and scaling of businesses and thus dampening productivity growth. While robots and AI can partially offset this over time, it could be years before they're adopted broadly given the large upfront investments they require.

Foreign-born participation has cushioned labor supply in the past but now faces fresh headwinds from policy shifts such as tighter immigration policy and enforcement. This includes Trump's recent [proclamation](#) calling for a new \$100,000 annual fee on H-1B visas.

Here's more from the BLS:

(1) *Labor force share & participation.* Foreign-born workers accounted for 19.2% of the civilian labor force in 2024, up from 18.6% in 2023 and 15.5% in 2010. Participation among foreign-born men (77.3%) far exceeds native-born men (65.9%), while foreign-born women participate slightly less than native-born women (56.1% versus 57.8%).

More recent but less detailed BLS data show the foreign-born share of the labor supply slipping from 19.6% in August 2024 to 18.9% in August 2025—signaling deterioration and vulnerability to tighter immigration policies and regulations ([Fig. 1](#)).

(2) *Unemployment & occupational mix.* Unemployment for foreign-born workers rose to 4.2% in 2024 (from 3.6% in 2023), compared with 4.0% for native-born. With their employment concentrated in cyclical areas such as services, construction, transportation, and production, foreign-born workers are especially exposed to economic cooling.

(3) *Education & earnings.* More than 18% of foreign-born workers (aged 25+) lacked a high school diploma in 2024 versus only 3.2% of native-born workers. Median weekly usual earnings for foreign-born workers were about 84% of native-born workers' in 2024, reflecting occupational mix and educational barriers.

Korean Economy I: Trump's Trade War Raises 1997 Risks. Add the risk of another South Korean collapse to the list of things Donald Trump has made great again. For 28 years now, successive South Korean governments have feared falling into another Asian financial crisis. Now, one could be upon Asia's fourth-biggest economy owing to the US

President's tariff demands.

Since taking office on [June 4](#), President Lee Jae-myung has viewed Trump management as a vital part of his job. Lee's team was relieved when his August 25 Oval Office meeting didn't become a "[Zelensky moment](#)," i.e., ambush akin to Trump's [testy exchange](#) with Ukraine's Volodymyr Zelensky. A [Politico headline](#) characterized it as "South Korea's Very Good Day in the Oval Office." But Washington and Seoul have been trading barbs over trade agreement terms, particularly the feasibility of the \$350 billion mountain of cash that Trump demands in exchange for Seoul's [current 15%](#) US tariff.

Let's explore why Trump's tariff demands have South Korea sweating:

(1) *Whiff of 1997*. For a while, Team Lee played nice with the Trump administration. But Lee has decided to push back, choosing a September 19 [interview with Reuters](#) to do it. As Lee said, Trump's demands could return the Korean economy to the darkest days of 1997, when it required a [\\$58 billion bailout](#). "Without a currency swap, if we were to withdraw \$350 billion [as] the US is demanding and to invest this all in cash in the US, South Korea would face a situation as it had in the [1997 financial crisis](#)," Lee said.

(2) *An 18% of GDP hit*. Trump's demand has many long-time Korea watchers aghast. Georgetown University's Victor Cha notes that it "represents 70% of the government's budget this year, and more than 18% of Korea's gross domestic product"—extraordinary figures!

Compounding the shock: the "harsh" treatment, as Lee puts it, of more than 300 Korean workers at a Hyundai Motor battery plant in Georgia amid recent [ICE raids](#). Koreans are outraged by images of the workers in shackles—and by the White House's publishing them. The incident may well disincentivize companies to invest in the US.

(3) *Japan and Trump don't see eye to eye either*. Japan is slow-walking Trump's demands to hand over [\\$550 billion](#) in cash immediately. What Trump calls a "signing bonus" Tokyo calls an aspirational amount of investment that Japan might make over many years.

Rather than piles of cash, Tokyo wants the money to come in the form of loans and grants through government-related organizations known more for scrutinizing investments than acting expeditiously. Part of Tokyo's rationale is that the US Supreme Court might rule Trump's trade war unconstitutional. If so, any funds transferred might be lost forever.

Yet Japan's economy is better equipped for Trump's demands than Korea's.

Korean Economy II: Pre-Existing Conditions Deepen the Concern. Korea's economy clearly isn't equal to the challenge of the US demands. One problem is that [*household debt*](#) is near record highs, undermining confidence. Another: Currency swaps are needed to avoid a massive capital flight. Among the top differences between Japan and Korea is the amount of currency reserves at their disposal. Korea's [*\\$410 billion*](#) of foreign exchange reserves are [*a third of Japan's*](#).

Here's more:

(1) *Swap lines needed.* Along with trying to rationalize the “commercial reasonableness” of handing over \$350 billion, Lee said, the Bank of Korea would need “[*unlimited*](#)” swap lines to keep the won from crashing.

(2) *Chronic ailments.* Yet Korea is vulnerable in part because Lee's five immediate predecessors over the last 20 years failed to recalibrate growth engines, increase productivity, or wrestle power away from the family-owned conglomerates that tower over the place. These chronic ailments were limiting potential growth well before Trump began tariffing economic friends and foes alike.

Lee also inherited a nation in turmoil. The shockwaves following [*Yoon Suk Yeol's*](#) martial law declaration in December cost Korea six months during which policymakers could've increased competition. Yoon was impeached and [*removed*](#) from office.

Before Yoon, President [*Moon Jae-in*](#) (2017-22), [*Park Geun-hye*](#) (2013-17), Lee Myung-bak (2008-13), and Roh Moo-hyun (2003-08) all promised to increase competitiveness, innovation, and productivity. Ultimately, all let central bank easing save the day.

(3) *Time problem.* As a result, time is not on Korea's side. Since 1997, China has acted as a giant accelerator and sped up economic time. Today, many of Korea's strengths are being commoditized: cars, electronics, steel, batteries, semiconductors, ships, robots, petrochemicals, you name it.

Now Trump's trade war is giving Seoul 350 billion reasons to regret not getting its economic house in order. And to reboot the reform process.

Strategy: Estimate Revisions Data Reach Escape Velocity. This week, LSEG released

its September snapshot of the monthly consensus revenues and earnings estimate revision activity over the past month. In our [S&P 500 NRRI & NERI](#) report, we index this activity by the number of upward revisions less downward ones, expressed as a percentage of total forward estimates. A zero reading indicates that an equal number of estimates were raised as were lowered over the past three months.

Our resulting Net Revenues Revisions Index (NRRI) and Net Earnings Revisions Index (NERI) reflect three months of activity, encompassing an entire quarterly reporting cycle, since analysts' tendency to revise their estimates differs at different points in the cycle.

Joe's review of the September data found that revisions activity has rebounded very strongly and broadly among the S&P 500's 11 sectors since bottoming in May. More than a few sectors' data stood at multi-year highs. Some highlights:

(1) *S&P 500 NERI at 45-month high.* The S&P 500's NERI index soared 5.1ppts m/m to a 45-month high in September after turning positive in August for the first time in 11 months. It jumped to 5.3% from 0.2% in August as it improved for a fourth straight month and is up from a 28-month low of -7.8% in May ([Fig. 2](#)).

September's 5.3% NERI reading ranks in the top 15% of the 485 monthly observations since March 1985, when the data were first calculated, and is well above the average reading of -1.9% seen since. More impressively, the 5.1ppts jump in NERI during September was its biggest move since September 2020 and ranks ninth overall, or among the top 10% of the m/m changes since then.

NERI finally has broken out of the moribund range seen since June 2022. Such speedy NERI reversals historically have preceded positive readings for at least the next 12 months. That supports the recent recovery to record-high stock prices and suggests further above-trend gains ahead.

(2) *More sectors have positive NERI.* Seven S&P 500 sectors recorded positive NERI in September, the most since August 2024 and up from five sectors in August. That's a notable improvement too from May, when Utilities was the only sector with positive NERI. Consumer Discretionary and Health Care improved markedly m/m, becoming the latest entrants in the positive NERI club ([Fig. 3](#) and [Fig. 4](#)). Early-mover Financials has been in the positive club during 16 of the past 19 months, and its NERI has rocketed 15.9ppts over the past two months to a 43-month high of 11.5% ([Fig. 5](#)).

Here are the September NERI readings for the S&P 500's 11 sectors: Financials (11.5%, 43-month high), Information Technology (11.3, 46-month high), Communication Services (10.8, 46-month high), Industrials (5.7, 26-month high), S&P 500 (5.3, 45-month high), Health Care (4.4, 46-month high), Utilities (2.8, 38-month high), Consumer Discretionary (1.1, 13-month high), Real Estate (-0.2), Materials (-1.8, 13-month high), Energy (-3.3, 13-month high), and Consumer Staples (-3.6, 13-month high).

Calendars

US: Wed: MBA Mortgage Applications; New Home Sales 650,000; Daly. **Thurs:** Real GDP & Price Index 3.3% & 2.0%; Real Consumer Spending 1.6%; Durable Goods Orders -0.5%; Initial Claims 235k; Goods Trade Balance -\$95.5b; Existing Home Sales 3.95mu, Kansas City Manufacturing Index; Williams; Barr; Goolsbee; Bowman; Logan; Daly. (Source: FX Street)

Global: Wed: Germany Ifo Business Climate Index Headline, Current Assessment & Expectations 89.2, 86.5 & 92.0; Japan Jibun Bank M-PMI 50.2. **Thurs:** Germany Gfk Consumer Confidence -23.1; France Consumer Confidence 87; ECB Economic Bulletin; Japan Core CPI 2.8%/y. (Source: FX Street)

US Economic Indicators

Regional M-PMIs ([link](#)): Three regional Fed banks so far have reported on manufacturing activity for August, New York, Philadelphia, and Richmond; the former two showed improving general business conditions, while Richmond's measure fell further into contraction. New York's headline general business activity index rose from 5.5 in July to 11.9 in August—its highest level since November 2024. New orders (to 15.4 from 2.0) accelerated this month, while shipments (12.2 from 11.5) continued to expand at a solid pace. Meanwhile, delivery times (17.4 from 8.3) lengthened significantly and supply availability (-5.5 from -11.0) worsened a bit. Employment (4.4 from 9.2) climbed slightly higher, while the average workweek (0.2 from 4.2) held steady. As for pricing, the prices-paid (54.1 from 56.0) measure was little changed this month but remained elevated, while prices-received (22.9 from 25.7) showed moderate selling prices. Philadelphia's headline general business activity index rose 23.5 points (to 23.2 from -0.3) to its highest reading since January. The shipments (to 26.1 from 4.5) and new orders (12.4 from -1.9)

components rose 21.6 points and 14.3 points, respectively, in August, while employment (5.6 from 5.9) was little changed. The average workweek (14.9 from 14.7) component rose 10.2 points. As for pricing, both the prices-paid (46.8 from 46.8) and prices-received (18.8 from 18.8) eased dramatically during the month. Richmond's composite manufacturing index (to -17 from -7) softened again in September, with all three of its component indexes, shipments (to -20 from -5), new orders (-15 from -6), and employment (-15 from -11) all deep in contraction territory. *As for pricing*, the average growth rate of prices paid (7.22% from 7.24%) showed little change, while prices received (4.02 from 3.14) accelerated in September. (Richmond Fed measures current and expected changes as percent changes over the last and next 12 months.)

Global Economic Indicators

US PMI Flash Estimates ([link](#)): “Business growth slows in September, but selling price inflation also cools” was the headline of this month’s report. September’s C-PMI (to 53.6 from 54.6) fell to a three-month low, with the NM-PMI (53.9 from 54.5) also easing to a three-month low and the M-PMI (52.0 from 53.0) and M-PMI Output (52.1 from 55.2) measures at two-month lows. The softening of demand growth has led to slower hiring. Meanwhile, tariffs once again were cited as a driver of higher input costs across both the manufacturing and service sectors; however, the number of companies able to hike selling prices to pass these costs on to customers has fallen—“hinting at squeezed margins but boding well for inflation to moderate,” according to the survey. Business confidence is improving on hopes that lower interest rates will help offset some of the anticipated impacts from tariffs and broader policy uncertainty, though remained much weaker than at the start of the year as “companies reported ongoing concerns over the impact of government policies, especially in relation to tariffs.”

Eurozone PMI Flash Estimates ([link](#)): Activity in the Eurozone continued to rise during September, continuing the trend seen since the start of 2025. That being said, both new orders and employment failed to maintain the growth, with both unchanged this month. Meanwhile, business confidence dipped to a four-month low. The Eurozone C-PMI (to 51.2 from 51.0) reached a 16-month high this month, according to flash estimates, with the NM-PMI (51.4 from 50.5) reaching a nine-month high, while the M-PMI (49.5 from 50.7) moved from expansion to contraction, falling to a three-month low. The M-PMI Output (50.7 from 52.2) measure remained just above the breakeven point of 50.0, though fell toward the breakeven point. Turning to the Eurozone's two largest economies, Germany saw its C-PMI (to 52.4 from 50.5) climb to a 16-month high, led by the NM-PMI (52.5 from 49.3), which

moved back into expansion territory this month—to an eight-month high. Meanwhile, the M-PMI (48.5 from 49.8) fell deeper into contraction territory, dropping to a four-month low, while the M-PMI Output (52.2 from 52.9) dipped to a two-month low. Economic activity in France weakened at its sharpest pace since April, with the C-PMI (to 48.4 from 49.8) further below 50.0. Both the M-PMI (48.1 from 50.4) and NM-PMI (48.9 from 49.8) deteriorated further, falling to their lowest readings in three and two months, respectively, while the M-PMI Output (45.9 from 49.8) sank to a seven-month low. The report noted that the rest of the Eurozone continued to register increasing output, though the rate of expansion continued to moderate. Turning to pricing, the report notes that “cost inflation in the services sector, which the European Central Bank watches closely, has eased slightly but remains unusually high given the fragile economic backdrop. Selling prices have cooled more noticeably, which might just prompt the ECB to consider whether a rate cut before year’s end could be back on the table.”

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