





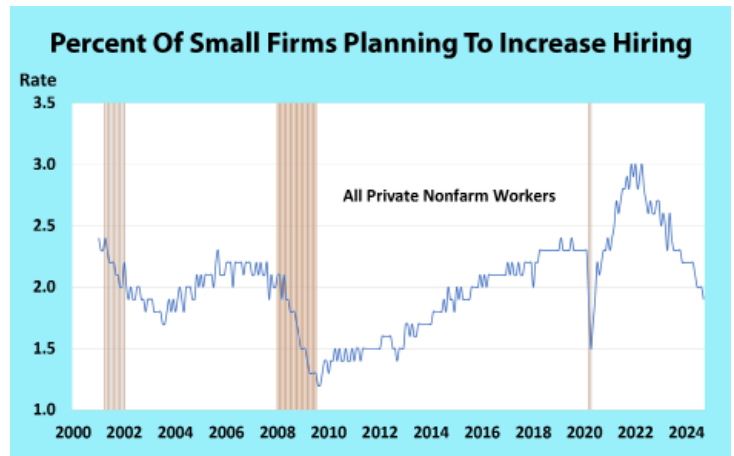
Importantly, the higher deficits that are certain to occur will keep market interest rates higher than otherwise, and may well slow the Federal Reserve's rate-cutting campaign. Investors are already pricing in fewer rate cuts next year than previously expected.

## Warning Signs

The biggest risk that could throttle the economy's growth engine next year would be a collapse in the job market. That's not likely to happen unless, as noted earlier, some confidence shattering external shock sends tremors through the business community. Barring that, the fundamentals supporting a healthy labor market remain intact. Consumers are still spending, propelled by rising wages and strong balance sheets. Businesses are still hiring as both profits and sales are holding up well. And while tariffs may be a drag on growth down the road, they are giving a jolt to activity over the near term, as many companies are stepping up orders from abroad before tariffs kick in.

That said, it would be a mistake to ignore emerging signs of weakening labor conditions. There are far fewer job openings than earlier this year, workers are choosing to stay put rather than quit for jobs elsewhere, reflecting less confidence of finding one, and while layoffs are low, unemployed workers are taking longer to find a job. Simply put, under the hood of

the historically low unemployment rate, conditions are starting to stagnate. That's not necessarily a bad thing; the job market had been overheated and a cooling off is needed to help bring down inflation.



If the Fed gets the signs right and keeps the job market from further weakening without stoking an inflation rebound, the U.S. economy's exceptionalism will endure. But the Fed will take a back seat to policy makers in the White House and on Capitol Hill in coming months, and the hope is that they can avoid a messy rollout of policies that would upend what is looking like a bright future for the U.S. economy.

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## KEY FINANCIAL AND ECONOMIC INDICATORS

	<u>October</u>	<u>September</u>	<u>August</u>	<u>July</u>	<u>June</u>	<u>May</u>	<u>April</u>	<u>12-Month Range</u>	
								<u>High</u>	<u>Low</u>
Prime Rate	8.00	8.30	8.50	8.50	8.50	8.50	8.50	8.50	8.00
3-Month Treasury Bill Rate	4.51	4.72	5.20	5.20	5.24	5.25	5.24	5.27	4.51
5-Year Treasury Note Rate	3.91	3.50	4.16	4.16	4.32	4.50	4.56	4.56	3.50
10-Year Treasury Note Rate	4.10	3.72	4.25	4.25	4.31	4.48	4.54	4.54	3.72
30-Year Treasury Bond Rate	4.38	4.04	4.46	4.46	4.44	4.62	4.66	4.66	4.04
Tax-Exempt Bond Yield	4.00	3.83	3.87	3.94	3.94	4.00	3.87	4.00	3.36
Corporate Bond Yield (AAA)	4.95	4.68	5.12	5.12	5.13	5.25	5.28	5.28	4.68
Conventional 30-Year Mortgage Rate	6.43	6.18	6.85	6.85	6.92	7.06	6.99	7.44	6.18
Dow Jones Industrial average	42494	41491	40086	40086	38904	39129	38401	42494	34705
S&P 500 Index	5792	5621	5538	5538	5415	5235	5112	5792	4460
Dividend Yield (S&P)	1.28	1.31	1.31	1.31	1.33	1.36	1.39	1.54	1.28
P/E Ratio (S&P)	25.9	26.1	25.6	25.8	25.6	24.7	24.1	26.1	22.0
Dollar Exchange Rate (vs. Major Currencies)	123.8	122.1	123.7	123.7	124.0	122.2	122.5	124.0	120.2

\* Monthly Averages

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								<u>High</u>	<u>Low</u>
Housing Starts (Thousands of Units)	1311	1353	1379	1262	1329	1315	1377	1568	1262
New Home Sales (Thousands of Units)		738	709	726	672	672	736	738	611
New Home Prices (Thousands of Dollars)		426	411	427	414	414	415	436	411
Retail Sales (% Change Year Ago)	2.8	2.0	2.0	2.9	2.0	2.6	2.8	5.00	0.2
Industrial Production (% Change Year Ago)	-0.3	-0.7	0.0	-0.5	0.9	0.0	-0.8	0.9	-1.2
Operating Rate (% of Capacity)	77.1	77.4	77.9	77.6	78.2	78.1	77.7	78.4	77.1
Inventory Sales Ratio (Months)		1.38	1.38	1.37	1.38	1.38	1.37	1.38	1.36
Real Gross Domestic Product (Annual % Change)		2.8			3.0			3.2	1.6
Unemployment Rate (Percent)	4.1	4.1	4.2	4.3	4.1	4.0	3.9	4.3	3.7
Payroll Employment (Change in Thousands)	12	223	78	144	118	216	108	310	12
Hourly Earnings (% Change Year Ago)	4.0	3.9	3.9	3.6	3.8	4.0	3.9	4.3	3.6
Personal Income (% Change Year Ago)		5.5	5.7	5.9	5.8	5.9	5.9	6.0	5.2
Savings Rate (Percent of Disposable Income)		4.6	4.8	4.9	5.2	5.2	5.3	5.5	4.4
Consumer Credit (Change in Blns. Of Dollars)		6.0	7.6	27.3	3.2	9.6	1.5	27.3	-2.4
Consumer Prices (% Change Year Ago)	2.6	2.4	2.5	2.9	3.0	3.3	3.4	3.5	2.4
CPI Less Food & Energy (% Change Year Ago)	3.3	3.3	3.2	3.2	3.3	3.4	3.6	4.0	3.2
Wholesale Prices (% Change Year Ago)	2.4	1.9	2.0	2.4	3.0	2.6	2.3	3.0	0.8