



AUSTIN PEARCE  
CAPITAL RESEARCH

Monday 15<sup>th</sup> December

# ECONOMIC DEVELOPMENTS OF THE WEEK

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# The Week Ahead

December 15 - December 19 2025

## Economic Calendar

### Monday

- CN: Industrial Production (YoY)
- CA: Inflation Rate (YoY)

### Tuesday

- DE: ZEW Economic Sentiment Index
- UK: Unemployment Rate
- US: Non Farm Payrolls
- US: Unemployment Rate

### Wednesday

- JP: Balance of Trade
- UK: Inflation Rate YoY
- EU: Labour Cost Index YoY Final

### Thursday

- EU: ECB Interest Rate Decision
- UK: BoE Interest Rate Decision
- US: Inflation Rate YoY

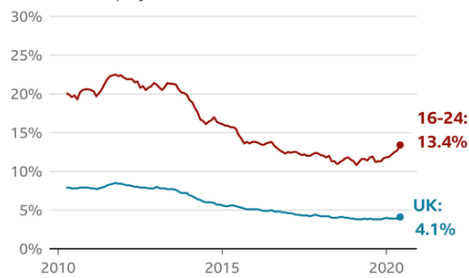
### Friday

- JP: BoJ Interest Rate Decision
- US: Existing Home Sales
- RU: Consumer Confidence

Importance Level: Low ● Medium ● High ●

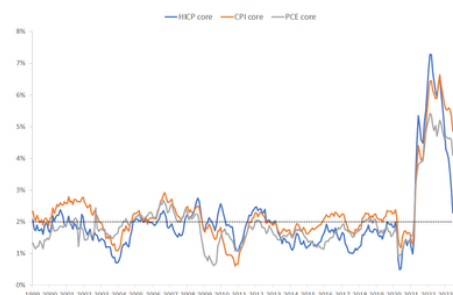
## Young people hit by rise in unemployment

Percentage of economically active people aged 16-24 who are unemployed



Source: Office for National Statistics. Margin of error: ± 0.4%

BBC



## UK Unemployment Rate Forecast

### Moderate increases in unemployment as hiring weakens and costs rise

UK labour market conditions have weakened through 2025, with the unemployment rate rising to around 5.0%, marking the highest level since 2021. This shift reflects a clear loss of momentum in economic activity rather than a sudden deterioration in labour market fundamentals. Hiring has slowed as firms respond to weak demand, elevated costs and heightened uncertainty, with unemployment rising gradually as employers prioritise recruitment freezes over large-scale redundancies. While the labour market remains relatively resilient by historical standards, the direction of travel points to increasing slack.

The near-term outlook has deteriorated following confirmation that GDP contracted by 0.1% in October 2025 and that the economy has grown in only one of the past seven months. Survey evidence suggests that uncertainty surrounding the Autumn Budget, alongside subdued consumer confidence and weak investment, has weighed heavily on activity across key sectors. This stagnation is now feeding through into labour demand, as firms adjust to weaker order books and squeezed margins. Higher labour costs, including increases in employer National Insurance Contributions and the National Living Wage, have reinforced these pressures by raising the cost of hiring at a time of fragile profitability.

Rising unemployment has been unevenly distributed, with young people disproportionately affected. Youth unemployment has increased more rapidly than the headline rate as firms scale back entry-level and graduate recruitment, echoing patterns seen in previous downturns. While participation rates remain high, limiting a rise in inactivity, reduced job creation for younger cohorts raises concerns about labour market scarring if weak conditions persist into 2026. These distributional dynamics suggest that the increase in unemployment reflects both cyclical weakness and structural constraints within the labour market.

Looking ahead, unemployment is expected to rise modestly further in the near term before stabilising later in the forecast horizon. The Bank of England's anticipated cut in interest rates to 3.75% in December 2025 should provide some support to demand, but the impact on hiring is likely to be gradual given lingering uncertainty and still-restrictive financial conditions. As growth recovers only slowly, unemployment is expected to peak in 2026 and ease slightly in 2027, although structurally weak productivity growth and subdued investment mean a rapid return to pre-pandemic labour market tightness appears unlikely.

## US seek to initiate a period of controlled cooling this week

### Gradual disinflation alongside weakening housing & labour market

Inflation in the United States is expected to continue easing gradually over the forecast horizon, though progress towards the Federal Reserve's 2% target is likely to remain uneven. Headline inflation has moderated from earlier peaks as energy prices stabilise and goods inflation fades, but core inflation remains sticky, reflecting persistent services price pressures and still-elevated wage growth. Recent commentary from the Federal Reserve suggests growing confidence that policy is now near neutral, as evidenced by the recent rate cut, yet officials remain cautious about declaring victory. As a result, inflation is projected to fall further through 2026 but remain slightly above target for longer than previously expected, limiting the scope for aggressive monetary easing and reinforcing a "higher for longer" real rate environment.

The US housing market shows tentative signs of stabilisation after a prolonged period of weakness driven by high mortgage rates and affordability constraints. Existing home sales have risen for a second consecutive month, supported by a modest pullback in mortgage rates and some easing in financial conditions. However, activity remains subdued by historical standards, with transaction volumes constrained by limited housing supply and the continued lock-in effect, as homeowners remain reluctant to give up low fixed-rate mortgages secured earlier in the cycle. While further interest rate cuts should gradually improve affordability and support demand, a meaningful recovery in housing activity is likely to be slow and uneven, with prices remaining relatively resilient despite weak turnover.

Labour market conditions are cooling, with non-farm payroll growth slowing markedly compared with the post-pandemic expansion. Recent payroll data show continued job creation, but at a pace consistent with a maturing cycle rather than robust expansion, and hiring has become increasingly concentrated in a narrow set of sectors such as healthcare and leisure. Survey and private-sector data point to a "low-hire, low-fire" environment, in which firms are reluctant to expand headcount but are also avoiding large-scale layoffs. This dynamic has kept the unemployment rate relatively stable so far, though rising joblessness expectations suggest growing downside risks as demand softens further.

Looking ahead, the interaction between easing inflation, fragile housing momentum, and slowing labour market growth points to a period of subdued but positive economic expansion rather than a sharp downturn. Payroll growth is expected to weaken further in 2026, pushing the unemployment rate modestly higher as labour demand adjusts to slower growth and tighter profit margins. Overall, the outlook is best characterised as a controlled cooling of the US economy, with inflation falling, growth moderating, and labour market conditions loosening without tipping decisively into recession.

# The Week Ahead

December 15 - December 19 2025

## Numerical Forecasts

The baseline and downside scenarios are derived from recent inflation, labour market, and housing data, using standard macroeconomic relationships. The baseline assumes gradual disinflation, below-potential growth, and a slow pass-through from monetary easing, resulting in modest job growth and a gradual housing recovery. The downside scenario assumes weaker demand and confidence, leading to higher unemployment, slower payroll growth, faster disinflation, and renewed softness in housing activity. Forecasts are presented as ranges to reflect uncertainty and data volatility.

Indicator	Latest level (2025)	Baseline 2026	Baseline 2027	Downside 2026	Downside 2027
<b>Inflation (PCE, y/y)</b>	~2.8%	2.3–2.6%	2.0–2.3%	2.0–2.3%	1.8–2.1%
<b>Core inflation (y/y)</b>	~3.1%	2.6–2.9%	2.3–2.6%	2.2–2.5%	2.0–2.3%
<b>Non-farm payrolls (avg monthly)</b>	~120k	+70k to +130k	+90k to +160k	0k to +60k	+40k to +110k
<b>Annual job creation</b>	~1.4m	0.8–1.6m	1.1–1.9m	0–0.7m	0.5–1.3m
<b>Unemployment rate (Q4)</b>	4.40%	4.6–4.9%	4.4–4.7%	5.2–5.8%	5.0–5.6%
<b>Existing home sales (SAAR)</b>	4.1m	4.2–4.5m	4.4–4.8m	3.7–4.0m	3.8–4.2m
<b>30-year mortgage rate</b>	~6.3%	5.6–6.0%	5.2–5.6%	6.0–6.5%	5.8–6.2%
<b>GDP growth (context)</b>	~1.8%	1.2–1.6%	1.5–1.9%	0.2–0.8%	0.8–1.2%

## Interpretation and transmission channels

The Baseline outlook assumes US inflation continues to ease gradually from its current elevated levels, but progress towards the 2% target remains uneven. The inflation benefits from stabilising energy prices and fading goods inflation, core inflation proves more persistent, reflecting sticky services prices and still-elevated wage growth even as labour market conditions cool. This is consistent with messaging from the Federal Reserve, which has emphasised that inflation remains too high for complacency despite a labour market that is described as cooling but broadly in balance. In this environment, job creation remains positive but subdued, with payroll growth slowing to a pace consistent with trend labour force growth and unemployment rising only modestly from current levels. As monetary policy gradually eases, housing activity improves slowly, with lower mortgage rates supporting a modest increase in existing home sales. However, limited housing supply and the continued lock-in effect prevent a rapid rebound, keeping activity below pre-pandemic norms despite improving financial conditions.

In the downside case, a sharper slowdown in economic growth leads to a more pronounced deterioration in labour market conditions. Hiring weakens significantly, with payroll gains approaching zero for a period as firms move beyond hiring freezes and begin to reduce headcount in response to falling demand and compressed profit margins. As unemployment rises into the mid-5% range, labour market slack increases more rapidly, reinforcing downward pressure on wages and services inflation. In this environment, inflation falls faster than in the baseline scenario as demand destruction outweighs supply-side rigidities, raising the risk of inflation undershooting target over the medium term. Housing activity deteriorates in parallel, with job insecurity and tighter credit conditions overwhelming the supportive effects of lower policy rates. As a result, existing home sales fall back below 4.0 million SAAR, reflecting weakened buyer confidence and delayed household formation rather than financing costs alone.

## Federal Reserve Policy Implications

These scenarios carry important implications for monetary policy over the coming quarters. Under the baseline outlook, the persistence of services inflation and still-elevated wage growth supports a cautious approach to further easing, consistent with recent signals from the Federal Reserve that policy is close to neutral but inflation remains too high for complacency. In this context, any additional rate cuts are likely to be gradual and data-dependent, aimed at preventing an unnecessary tightening of financial conditions rather than actively stimulating demand. By contrast, the downside scenario would strengthen the case for more decisive easing, as a sharper rise in unemployment alongside faster disinflation would suggest that demand-side weakness is increasingly dominating inflation dynamics.

## Data Caveats and Uncertainty

Near-term policy decisions are complicated by notable data limitations. Recent labour market and inflation releases have been affected by reporting delays, revisions, and heightened volatility linked to the government shutdown, reducing the reliability of short-term signals. As a result, policymakers are likely to place greater emphasis on underlying trends and forecast ranges rather than individual data points, reinforcing a cautious, wait-and-see approach even as downside risks to growth and employment increase.

# The Week Prior

December 08 - December 12 2025

Dow Jones	SNP500	FTSE 100	GOOGL	NFLX	PSKY	UBS
+1.25%	-0.70%	0.4%	-0.75%	-4.55%	-2.38%	5.70%

## Streaming Giants Battle for Warner Bros.

### Netflix and Paramount bids highlight accelerating media consolidation

The entertainment industry is witnessing one of its most dramatic corporate battles in decades as Netflix and Paramount Skydance each pursue control of Warner Bros. Discovery (WBD). On 5 December 2025, Netflix announced an agreement to acquire WBD's studio and streaming assets, including iconic franchises such as Harry Potter and HBO Max, for an equity value of approximately \$72 billion within an \$82.7 billion enterprise valuation. This move, pitched as a strategic expansion of Netflix's content library and global footprint, represents a major shift in the structure of the streaming landscape and would consolidate significant media properties under one platform.



Almost immediately after Netflix's deal emerged, Paramount Skydance launched a rival, hostile takeover bid, positioning an all-cash offer valued at roughly \$108 billion and appealing directly to WBD shareholders in an attempt to supplant or supersede the Netflix arrangement. Paramount's strategy hinges on providing more liquidity per share and acquiring the entire Warner entity including linear cable networks that Netflix's bid excludes, while arguing that its proposal faces fewer regulatory obstacles. Paramount's bid has drawn political and regulatory attention, with leaders and antitrust observers weighing in on the broader implications for competition in the media sector amid concerns about consolidation and consumer choice.

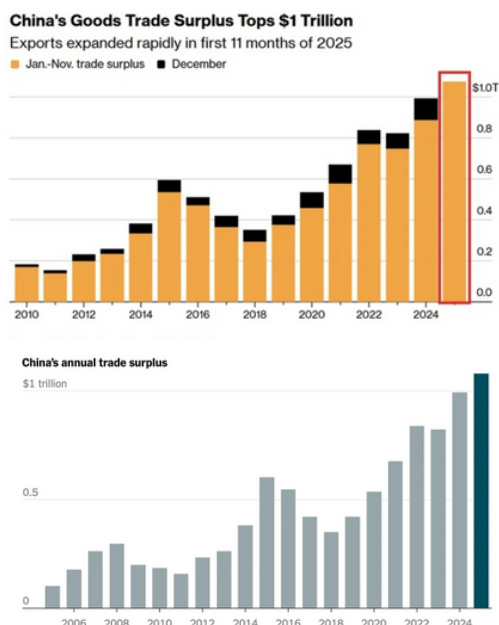


The contest for Warner Bros. Discovery has already had measurable market effects: share prices for WBD have fluctuated in response to the competing offers, and Netflix's stock has seen downward pressure as investor sentiment weighs the risk of overvaluation and regulatory hurdles. Both bidders now confront intensive antitrust scrutiny from the U.S. Department of Justice and other regulators, as well as legal and shareholder actions questioning the competitive and consumer welfare implications of such a large merger or acquisition. Whoever acquires Warner Bros. Discovery gains major strategic scale in the streaming and media market, securing valuable franchises and content that help stabilise subscriber demand and reduce reliance on constant new production.

## China's Expanding Trade Surplus

### Record export strength and weak domestic demand are deepening global imbalances and fuelling renewed trade tensions

China's record trade surplus has continued to reverberate across the global economy, intensifying concerns about structural imbalances in international trade. Driven by weak domestic demand, strong industrial output, and subdued import growth, China's surplus has expanded as exports remain resilient despite slowing global growth. For major trading partners, particularly the United States and the European Union, this imbalance has renewed fears of deindustrialisation and unfair competition, prompting calls for tougher trade defences. Policymakers argue that persistent surpluses reflect distortions such as state support for industry and constrained domestic consumption, which amplify global trade tensions at an already fragile economic moment.



The broader macroeconomic implications are significant. Large and sustained trade surpluses can suppress global demand by concentrating savings within surplus economies while deficit countries absorb rising debt and political pressure. International institutions warn that such imbalances risk accelerating trade fragmentation as governments increasingly resort to tariffs, subsidies, and industrial policy to shield domestic producers. While China has emphasised its commitment to open trade, economists suggest that without stronger domestic consumption growth, surplus-driven export dependence will continue to strain global economic relations and undermine multilateral trade cooperation.

# Earnings Release

December 15 - December 19 2025

Monday

Tuesday

Wednesday

Thursday

Friday

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# Markets Report

December 08 - December 14 2025

Commodities (Levels)

Commod.	12.12.2025	31.12.2024	12.12.2024
Oil (WTI)	57.61	72.44	70.25
Gasoline	2.94	3.01	3.01
Natural Gas	4.24	3.40	3.12
Gold	4'347.00	2'609.00	2'684.00
Silver	64.51	28.91	31.88
Copper	11'816.00	8'706.00	9'039.00
Corn	4.36	4.53	4.38
BBG Idx	273.95	238.62	238.76

Bond Yields (10 yr)

Country	Level 12/12	Change vs week ago (bps)	Change YTD (bps)	Change vs year ago (bps)
UK	4.5	4	-6	15
Germany	2.9	6	50	67
USA	4.2	5	-38	-13
Japan	2.0	0	87	90
China	1.9	-1	17	3

Currency Levels

Pair	12.Dec	Week ago	Start of year	Year ago
\$ per €	1.17	1.16	1.04	1.05
£ per €	0.88	0.87	0.83	0.83
\$ per £	1.34	1.33	1.25	1.27
¥ per \$	183	181	163	160
CN¥ per \$	7.05	7.07	7.34	7.28
CHF per €	0.93	0.94	0.94	0.93

Macro Snapshot

Region	GDP %	CPI %
Eurozone	1.1	2.2
UK	0.3	3.6
US	3.8	-
Japan	-2.3	3.0
China	4.5	0.7

Volatility (%)

Index	12/12	Week ago	Start of year	Year ago
VIX	16.0	15.0	17.0	14.0

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