



Moderating Inflation Amid Economic Uncertainty: An Analysis of the November 2025 Consumer Price Index and Its Implications for Consumer Behavior and the Discretionary Sector

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The Civic Data & Research Institute is a nonpartisan research organization dedicated to data-driven analysis and public education on civic and public policy issues affecting the general public. This report offers a comprehensive, objective examination of the November 2025 Consumer Price Index (CPI) release, situating it within the broader context of consumer sentiment surveys, economic activity indicators, and performance trends in the consumer discretionary sector.

Executive Summary

The November 2025 CPI report, released on December 18, 2025, reveals a continuation of moderating inflation trends, with headline CPI rising 2.7% year-over-year and core CPI at 2.6%. These figures reflect a slowdown influenced in part by data collection disruptions from the federal government shutdown, which affected October surveys. Despite this moderation, persistent pressures in shelter (+3.0% annually) and energy (+4.2% annually) underscore ongoing challenges for household budgets.

Consumer sentiment indicators paint a more cautious picture: the University of Michigan Consumer Sentiment Index stood at 51.0 in November, improving modestly to 52.9 in December, while the Conference Board Consumer Confidence Index declined to 89.1 in December. These low readings signal subdued optimism, particularly regarding future economic conditions and labor markets.

Economic surveys highlight sectoral divergence, with the ISM Manufacturing PMI contracting at 48.2 in November, indicating ongoing weakness in goods production, contrasted by expansion in the ISM Services PMI at 52.6. The consumer discretionary sector exhibited resilience in parts of 2025, with strong Q3 earnings contributions and standout performers in retail and e-commerce, though overall growth remains tempered by cautious consumer spending.

Collectively, these data points suggest that while easing inflation provides potential tailwinds for discretionary spending, lingering sentiment weakness and manufacturing contraction may constrain recovery. Policymakers must remain vigilant to shelter and energy dynamics, as well as labor market resilience, to support sustained economic stability.

Introduction

Inflation dynamics play a pivotal role in shaping consumer purchasing power, business investment decisions, and overall economic trajectory. As a primary measure of price changes for urban consumers, the Consumer Price Index (CPI) provides essential insights into inflationary pressures across goods and services. The November 2025 release arrives at a juncture marked by post-shutdown data irregularities, evolving monetary policy expectations, and mixed signals from consumer and business surveys.

This report integrates the latest CPI data with complementary indicators: consumer sentiment from the University of Michigan and Conference Board surveys, business activity via ISM Purchasing Managers' Indices, and earnings trends in the consumer discretionary sector. By examining these interconnections, we aim to elucidate how moderating inflation interacts with consumer behavior and cyclical industries, informing public policy discourse on economic resilience and equity.

Theoretical frameworks, such as the Phillips curve and consumption function, underscore inflation's inverse relationship with real disposable income and discretionary expenditures. In periods of elevated inflation, households often prioritize essentials, deferring nonessential purchases—a pattern evident in recent years and relevant to interpreting current trends.

Detailed Analysis of the November 2025 CPI Report

The U.S. Bureau of Labor Statistics (BLS) published the November 2025 CPI on December 18, 2025. Data collection was significantly disrupted by the federal government shutdown, which prevented October surveys and necessitated alternative methodologies for certain indices. Consequently, monthly changes are reported over a two-month period (September to November), introducing some estimation uncertainty.

Headline CPI increased 0.2% seasonally adjusted over this two-month span, corresponding to a 2.7% unadjusted annual rise for the 12 months ending November—a deceleration from prior readings. Core CPI, excluding volatile food and energy, similarly rose 0.2% over two months and 2.6% annually, indicating stable underlying pressures.

Key category contributions highlight persistent challenges in essentials:

CATEGORY	TWO-MONTH CHANGE (SEP-NOV, SEASONALLY ADJUSTED)	ANNUAL CHANGE (ENDING NOV 2025, UNADJUSTED)
ALL ITEMS	+0.2%	+2.7%
ALL ITEMS LESS FOOD & ENERGY	+0.2%	+2.6%
FOOD	+0.1%	+2.6%
ENERGY	+1.1%	+4.2%
SHELTER	+0.2%	+3.0%
MEDICAL CARE	Varied	+2.9%
HOUSEHOLD FURNISHINGS & OPERATIONS	Increased	+4.6%
RECREATION	Decreased	+1.8%
APPAREL	Decreased	N/A

Energy's annual surge was driven by gasoline (+0.9%), fuel oil (+11.3%), electricity (+6.9%), and piped gas (+9.1%). Food pressures moderated somewhat, with food at home up 1.9% annually, though subcategories like meats (+4.7%) remained elevated. Shelter, a major core component, continued its steady climb, reflecting housing market rigidities.

The BLS's use of nonsurvey sources for impacted indices and removal of long-term care insurance from the health index introduce methodological notes warranting caution in interpretation. Nonetheless, the report signals a cooling trajectory, potentially supportive of Federal Reserve rate adjustments.

Consumer Sentiment: Persistent Caution Despite Moderation

Consumer research surveys serve as leading indicators of spending intentions, often exhibiting inverse correlations with inflation. Elevated prices erode real income, prompting shifts toward essentials and away from discretionary categories.

The University of Michigan Consumer Sentiment Index registered 51.0 in final November readings, a slight improvement from preliminary figures amid shutdown resolution, yet historically depressed. December's revised figure of 52.9 reflects modest gains, with the Current Conditions sub-index at 50.4 and Expectations at 54.6. Director Joanne Hsu noted ongoing pocketbook concerns, with sentiment nearly 30% below year-ago levels, driven by high prices and labor market fears.

Complementing this, the Conference Board Consumer Confidence Index fell to 89.1 in December from 92.9 in November, with the Expectations sub-index at 70.7—below the

recessionary threshold of 80 for eleven months. Declines in perceptions of plentiful jobs and income optimism underscore anxiety over affordability.

These metrics align with economic theory: persistent inflation, even moderating, sustains caution, particularly among lower-income households, constraining discretionary outlays in retail, travel, and leisure.

Economic Surveys: Divergent Signals from Manufacturing and Services

Purchasing Managers' Indices offer timely snapshots of business conditions, influencing employment and wage dynamics critical to consumption.

The ISM Manufacturing PMI declined to 48.2 in November, marking nine consecutive months of contraction amid weak demand and tariff uncertainties. Sub-indices reflected pullbacks in new orders and employment, signaling vulnerabilities in goods-producing industries.

Conversely, the ISM Services PMI rose marginally to 52.6, indicating expansion for the ninth time in 2025. Resilience in services—encompassing much of discretionary activity like hospitality—suggests domestic consumption buffers some headwinds.

This bifurcation implies uneven recovery: manufacturing weakness may suppress wage growth, indirectly pressuring discretionary spending, while services expansion provides counterbalance.

Consumer Discretionary Sector: Mixed Performance in a Challenging Environment

The consumer discretionary sector, sensitive to income fluctuations and sentiment, encompasses nonessential goods and services from apparel to automotive and entertainment. Inflation's erosion of purchasing power typically disproportionately affects this cyclical area.

In 2025, the sector delivered moderate growth amid broader market gains, with Q3 blended earnings contributing positively to S&P 500 aggregates. Revenue growth reached notable highs in recent quarters, led by e-commerce giants and value-oriented retailers. Standout performers included companies in retail (e.g., off-price models thriving on budget-conscious shifts) and travel, benefiting from pent-up demand.

However, overall earnings faced headwinds from cautious spending, with projections reflecting modest advances. Amazon's dominance in e-commerce and cloud services bolstered aggregates, while tariff impacts and input costs tempered margins in import-reliant subsectors.

Moderating CPI offers potential relief, enhancing real income and encouraging nonessential purchases. Yet, subdued sentiment and manufacturing signals suggest restrained demand, capping upside.

Interconnections, Theoretical Insights, and Policy Implications

Interweaving these datasets reveals nuanced dynamics. Easing headline inflation correlates with potential discretionary tailwinds via improved real wages, consistent with Keynesian consumption theory. However, sticky core components (shelter, services) and weak sentiment perpetuate caution, aligning with precautionary savings motives in uncertain environments.

Manufacturing contraction risks feedback loops: reduced industrial employment could further dampen confidence, exacerbating discretionary pullbacks. Services resilience mitigates this, highlighting the economy's service-dominant structure.

Policy considerations include monitoring tariff effects on import costs, potentially reigniting inflation, and supporting housing supply to alleviate shelter pressures. Fiscal measures targeting lower-income relief could bolster sentiment and equitable spending recovery.

Conclusion

The November 2025 CPI evidences inflationary moderation amid disruptions, offering guarded optimism for consumer relief. Tempered by low sentiment, sectoral divergence, and discretionary vulnerabilities, the outlook remains cautious. Sustained data vigilance is essential for evidence-based policy fostering inclusive growth.

The Civic Data & Research Institute remains committed to impartial analysis illuminating these critical interconnections.

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