

Peering Through the Data Fog

We have never seen economic data as murky as they are today. The jobs data are very soft, and yet the Atlanta Fed's GDPNow model (which slowly incorporates data as they're released) says fourth quarter real GDP growth will be 5.1%.

At face value, this suggests productivity growth is rising and, last week, third quarter productivity growth was reported as very strong. But can we take any of this at face value? GDP data have been hugely influenced by international trade, which has been extremely volatile given US tariff policy.

To wit, the trade deficit narrowed sharply and unexpectedly to \$29.4 billion in October, the smallest for any month since 2009. This smaller trade deficit is adding about two percentage points to real GDP growth in the fourth quarter. Without trade, real GDP is running at about 3% in Q4. And "Core GDP," which excludes government purchases, inventories, and international trade, is heading for 2.5% growth.

In the meantime, the labor market looks tepid at best. Payrolls declined 22,000 per month in the fourth quarter. Much of that was due to a drop in federal employment, with many workers taking buyouts, but private-sector payrolls have barely grown.

In fact, total nonfarm payrolls excluding government and a category called "healthcare and social assistance" (which includes people paid by government to provide in-home services) are down 58,400 over the past six months. In the second half of 2025, manufacturing jobs were down 44,000, while retail jobs were down 31,300.

In other words, we have real GDP growing at a solid pace, even faster than in 2024, but nonfarm payroll data says recession.

How can this possibly be explained? One narrative says AI, robotics, and other new technologies are so amazing that we can produce more with fewer people. We have no doubt that the adoption of these new processes will raise productivity over time, but there is not an avalanche of anecdotal evidence to back this claim up today. Yes, data center spending is exploding, but other than that, business investment is relatively weak.

Another says that deregulation, cutting government support of solar and wind projects, and the fact the tax environment has improved are causing a Reagan-style acceleration of economic activity. But the main strength in GDP is consumption and AI spending, not other construction or exports.

While we are not big fans of the wealth effect (especially its use in managing monetary policy), it certainly appears that consumption is being driven higher by baby boomers and others who have saved and are experiencing an appreciation in asset values. But if the stock market (which certainly appears overvalued) stumbles, this spending could disappear quickly.

The bottom line is that the data are mixed and trying to draw definitive conclusions from it is virtually impossible. This fog should lead everyone to maintain a cautious investment stance. What does that mean? Be careful concentrating too much in high priced sectors of the market. Broaden out. When driving in fog, drive more defensively.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------|-------------------------------|--------------|---------------------|--------|--------------|
| 1-13 / 7:30 am | CPI – Dec | +0.3% | +0.3% | | +0.3% |
| 7:30 am | "Core" CPI – Dec | +0.3% | +0.2% | | +0.2% |
| 1-14 / 7:30 am | Retail Sales – Nov | +0.4% | +0.6% | | 0.0% |
| 7:30 am | Retail Sales Ex-Auto – Nov | +0.4% | +0.5% | | +0.4% |
| 7:30 am | PPI – Dec | +0.2% | +0.2% | | +0.3% |
| 7:30 am | "Core" PPI – Dec | +0.2% | +0.2% | | +0.1% |
| 7:30 am | Q3 Current Account Balance | -\$239.0 Bil | -\$238.0 Bil | | -\$251.3 Bil |
| 9:00 am | Existing Home Sales – Dec | 4.220 Mil | 4.270 Mil | | 4.130 Mil |
| 9:00 am | Business Inventories – Oct | +0.1% | +0.1% | | +0.2% |
| 1-15 / 7:30 am | Initial Claims – Jan 10 | 215K | 211K | | 208K |
| 7:30 am | Philly Fed Survey – Jan | -1.0 | 2.2 | | -8.8 |
| 7:30 am | Empire State Mfg Survey – Jan | 1.0 | 5.7 | | -3.9 |
| 7:30 am | Import Prices – Nov | -0.2% | -0.1% | | 0.0% |
| 7:30 am | Export Prices – Nov | 0.0% | 0.0% | | 0.0% |
| 1-16 / 8:15 am | Industrial Production – Dec | +0.1% | +0.1% | | +0.2% |
| 8:15 am | Capacity Utilization – Dec | 76.0% | 76.0% | | 76.0% |