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Dutta's Monetary Thoughts

Data discontinuities are here

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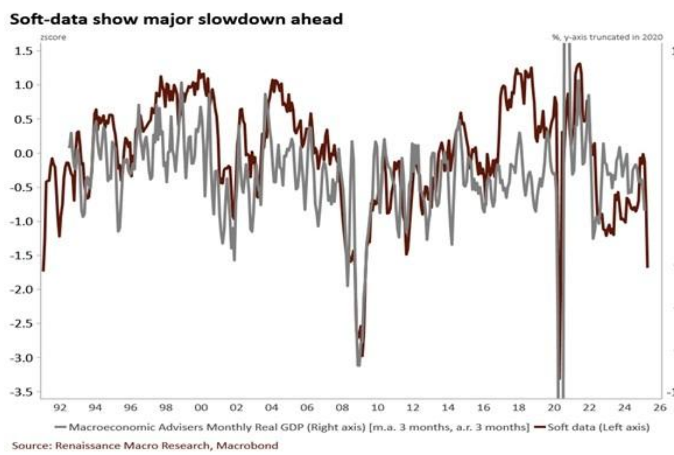
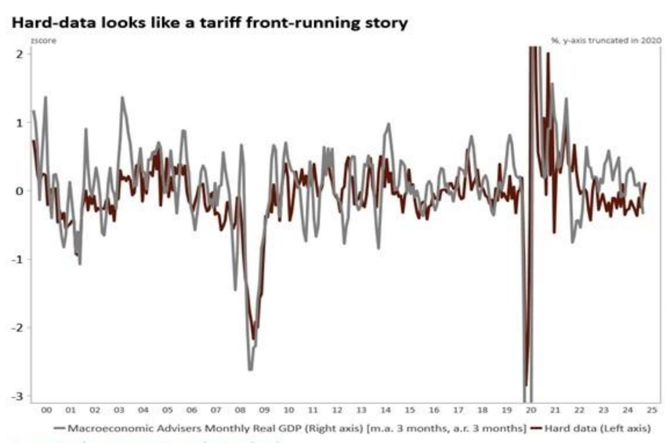
Discontinuities in the data: Hard or soft edition

As FOMC Chairman Powell recently noted, there is a "tension" between hard and soft, or survey-based, measures of economic data. At the moment, harddata appear to be holding up while soft-data show a rapidly deteriorating backdrop. Indeed, the soft-data reflect what former FOMC Chairman Greenspan would call "discontinuities." In his words, "you don't gradually fall into recession, you jump."

- **<u>Our work confirms this disconnect between hard and soft-data</u>**. We run a soft-data composite index comprised of survey-based measures of activity including consumer and business confidence. It has collapsed in recent months. By contrast, our hard-data composite index has improved of late. Normally, I'd tend to put more weight on hard-data, but these are not normal times.



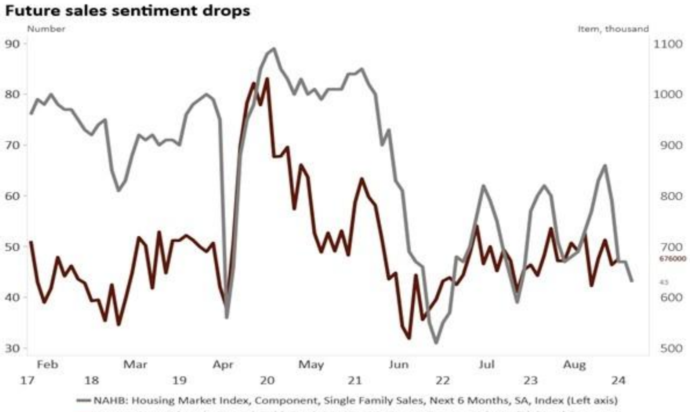
- **<u>It's probable that much of the recent upside surprises in hard-data reflect pulling forward activity in the anticipation of tariffs</u>**. Consumers pulled forward auto sales and consumption on other household durables, as an example. Firms likely pulled forward some orders too. That likely gives the veneer of strength in the recent high-frequency dataflow.



- **<u>Before the tariff news really kicked in, the harddata was already slowing notably</u>**. S&PGlobal keeps a monthly indicator of real aggregate output that is consistent with real GDP in the National Income and Product Accounts. Taking an average of the three-months ending in February, the three-month annualized rate on monthly GDP rose just 0.64% SAAR. Growth was already slowing.
- **<u>Soft-data tend to be more stable measures of activity, which is why they tend to improve the accuracy of tracking models of growth</u>**. Moreover, they also tend to predict the behavior of the hard-data when there is a disconnect between the two. A major weather event is a good example – it will tend to impact real activity, but have almost no effect on sentiment measures. Finally, for all the talk of how disconnected sentiment has been from reality ("vibescession") key metrics still work reasonably well.

To summarize, recent hard-data in the US, mostly for March, are overstating activity and it's worth noting that conditions were not especially strong to begin with. The collapse across a range of survey-based measures of activity suggest that actual activity will continue to slowdown, in a potentially abrupt manner. Recession may already be here.

Future sales sentiment drops



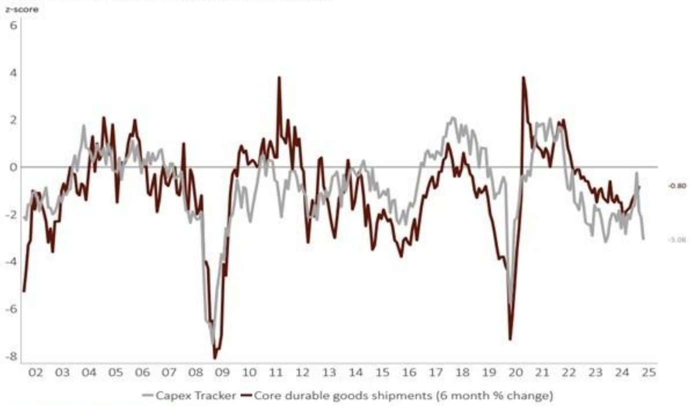
Source: Renaissance Macro Research, Macrobond

What to watch in the soft-data

I'd watch the following three areas to resolve the tension between the soft and hard-data.

- **Housing.** Homebuilder sentiment has softened in recent months amidst elevated interest rates. The sixmonth outlook declined to 43 in April, the lowest since November 2023. I'd expect new home sales and singlefamily starts to fall in Q2.

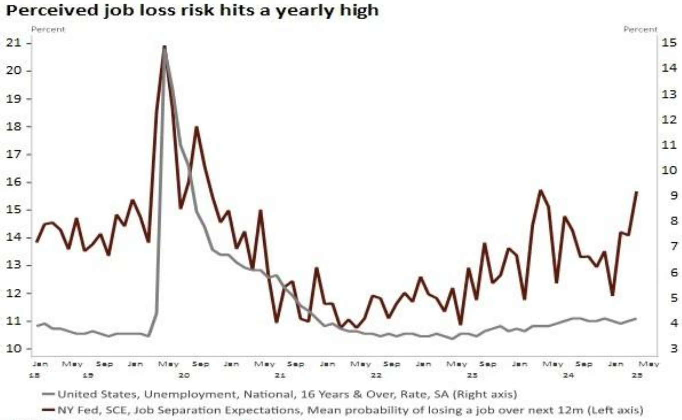
Capex intentions have roundtripped



Source: Renaissance Macro Research, Macrobond

- **Nonresidential investment.** Capital spending intentions rose following the election and core durable goods shipments followed. In recent months, capital spending intentions have tumbled. Thus, it would stand to reason that actual investment will too.

Perceived job loss risk hits a yearly high



Source: Renaissance Macro Research, Macrobond

- **Labor market.** Consumer attitudes about the jobs market have worsened. Latest data from the New York Fed's Survey of Consumer Expectations shows that the mean probability of losing a job in the next year jumped to 15.7%, the highest in a year. Consumers tend to spot changes in their local economies ahead of the formal job market statistics.

Watch these three areas carefully. They'll give you a good sense for how the hard and soft data will reconcile during this period.