First Trust
Weekly OUTLOOK

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Good GDP, Not So Good Jobs

If you're grading the economy based on real GDP, it looks pretty good; if grading based on jobs, not so much.

As we explain below, it looks like the economy grew at a 3.2% annual rate in the fourth quarter, which would be the third straight quarter of 3.0%+ after the Q1 slump related to importers front-running the Trump tariffs. It would also mean the economy grew 2.7% in 2025, a slight acceleration from 2.4% in 2024.

And yet job growth has sputtered. Private payrolls rose 172,000 in January, the most in more than a year. But the Labor Department also reported that including an annual "benchmark revision," which factors in data on jobless claims, as well as updating a "birth/death" model tracking new businesses and ones that have closed, private jobs only grew 367,000 in 2025, slower than the 1.021 million in 2024. Excluding health care and social assistance, payrolls declined last year.

One reason for the disparity is productivity, which appears to be picking up. Another is the strict enforcement of immigration laws. The US has gone from net immigration flows of 2.7 million per year to something much closer to zero. Mathematically, if output grows faster than employment, productivity is rising, possibly because of AI. However, we doubt real GDP will continue growing at 3.0%+ and expect slower growth for Q1. It's much too early to declare the start of a new technology-driven boom.

Consumption: Auto sales dropped at an 18.6% annual rate in Q4 after the end of subsidies for EVs. "Real" (inflation-adjusted) retail sales excluding autos rose at a 0.4% rate and real service spending appears up at a 3.0% pace. Combined, this brings our estimate of real consumer spending to a 2.4% rate, adding 1.6 points to the real GDP growth rate (2.4 times the consumption share of GDP, which is 68%, equals 1.6).

Business Investment: We estimate a 3.1% growth rate for business investment, with gains in equipment and intellectual property leading the way. A 3.1% growth rate would add 0.4 points to real GDP growth. (3.1 times the 14% business investment share of GDP equals 0.4).

Home Building: Residential construction appears to have declined at about a 10.0% rate in the fourth quarter, possibly reflecting a lack of workers to build homes while strict immigration enforcement makes more units available for rent. A 10.0% annualized drop would be a 0.4 point drag on real GDP growth. (-10.0 times the 4% residential construction share of GDP equals -0.4).

Government: The Trump Administration has cut federal payrolls faster than at any time in many decades, but only direct government purchases (not government salaries or transfer payments) count when calculating GDP. We estimate these purchases were up at a 1.8% rate in Q4, which would add 0.3 points to the GDP growth rate (1.8 times the 17% government purchase share of GDP equals 0.3).

Trade: It looks like the trade deficit shrank for the third straight quarter after the temporary surge in Q1. This forecast may change when the trade report arrives Wednesday morning, but for now we're projecting net exports will increase the Q4 real GDP growth rate by 0.8 percentage points.

Inventories: After a decline in Q3, it looks like businesses restocked shelves and showrooms in Q4, boosting inventories and generating what we are estimating as a 0.5 percentage point boost to real GDP growth.

Add it all up, and we get a 3.2% annual real GDP growth rate for the fourth quarter. Good news, but we don't expect growth as strong in Q1 or for 2026 as a whole.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-17 / 7:30 am	Empire State Mfg Survey – Feb	6.2	**4.6**	7.1	7.7
2-18 / 7:30 am	Durable Goods – Dec	-2.0%	**-2.4%**		+5.3%
7:30 am	Durable Goods (Ex Trans) – Dec	+0.3%	**+0.1%**		+0.4%
7:30 am	Housing Starts – Dec	1.310 Mil	**1.339 Mil**		NA
8:15 am	Industrial Production – Jan	+0.4%	**+0.4%**		+0.4%
8:15 am	Capacity Utilization – Jan	76.5%	**76.6%**		76.3%
2-19 / 7:30 am	Initial Claims – Feb 14	225K	**220K**		227K
7:30 am	Int'l Trade Balance – Dec	-$55.5 Bil	**NA**		-$56.8 Bil
7:30 am	Philly Fed Survey – Feb	7.3	**2.4**		12.6
2-20 / 7:30 am	Q4 GDP Advance Report	+3.0%	**+3.2%**		4.4%
7:30 am	Q4 GDP Chain Price Index	+2.8%	**+2.3%**		3.8%
7:30 am	Personal Income – Dec	+0.3%	**+0.3%**		+0.3%
7:30 am	Personal Spending – Dec	+0.4%	**+0.4%**		+0.5%
9:00 am	New Home Sales – Dec	732K	**NA**		NA

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