Weak GDP Growth Masked as Non-Farm Payrolls Decelerate

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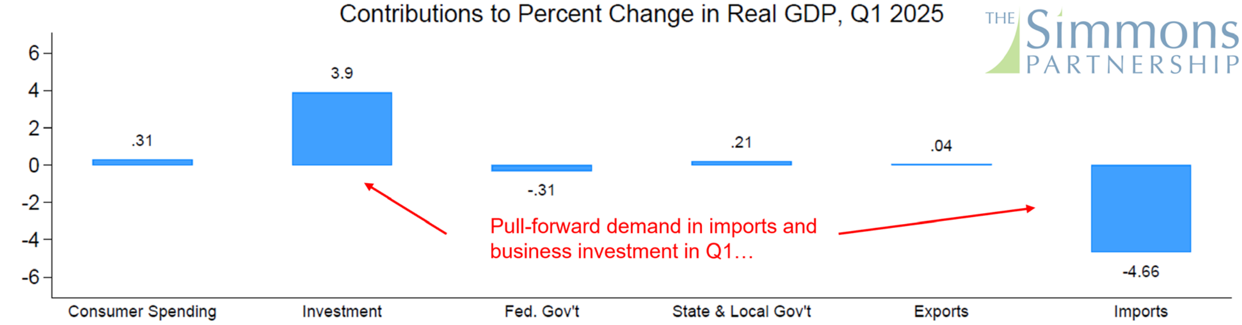
Equity markets are wrong—the economy is struggling. After the impressive FOMO rally in July, which drove the S&P 500 up 2.5% for the month (7.4% year-to-date), markets were caught offsides by today's *shockingly* bad labor report. Consistent with my commentary over the past six months (see previous posts), economic statistics released this week continue to tell the story of a decelerating labor market and relatively stagnant economic growth. **Investors should use this opportunity to evaluate their portfolios.** (If you're interested in learning how a professional portfolio management team can help you stay invested, while hedging downside risk and generating additional income, reach out.)

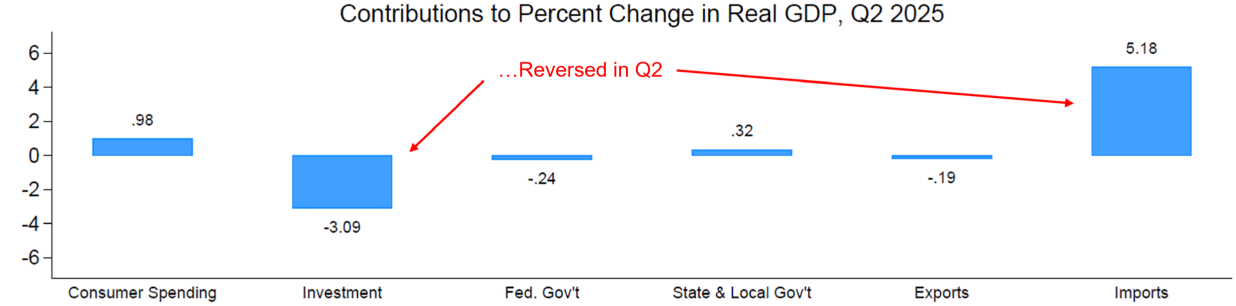
While headline Q2 real GDP growth of 3.0% (annualized rate) appeared strong, Q2 all but cancelled out the pull-forward demand we experienced in Q1. **Through the first half of the year, real U.S. GDP grew by a meager 0.61%. On an annualized basis, that's just 1.2%—far below potential.**

As shown below, contributions to Q2 real GDP growth were effectively the mirror image of what we saw in Q1, when we experienced a spike in imports and business investment ahead of tariffs. Headline GDP growth for Q2 was driven primarily by a 30.3% decline in imports in the quarter. (Because imports are a subtraction from the calculation of GDP, this sharp decline in imports contributed 5.18 percentage points to the change in real GDP.) Businesses also paired back investment, subtracting 3.09 percentage points from GDP growth—this was primarily driven by a decline in inventories, as firms continue to work off the inventory investment they pulled forward into Q1. Overall, domestic consumption (consumer spending plus gross private domestic investment) was weak, subtracting 2.1 percentage points from real GDP growth for the quarter.

Contributions to Percent Change in Real GDP, Q1 2025

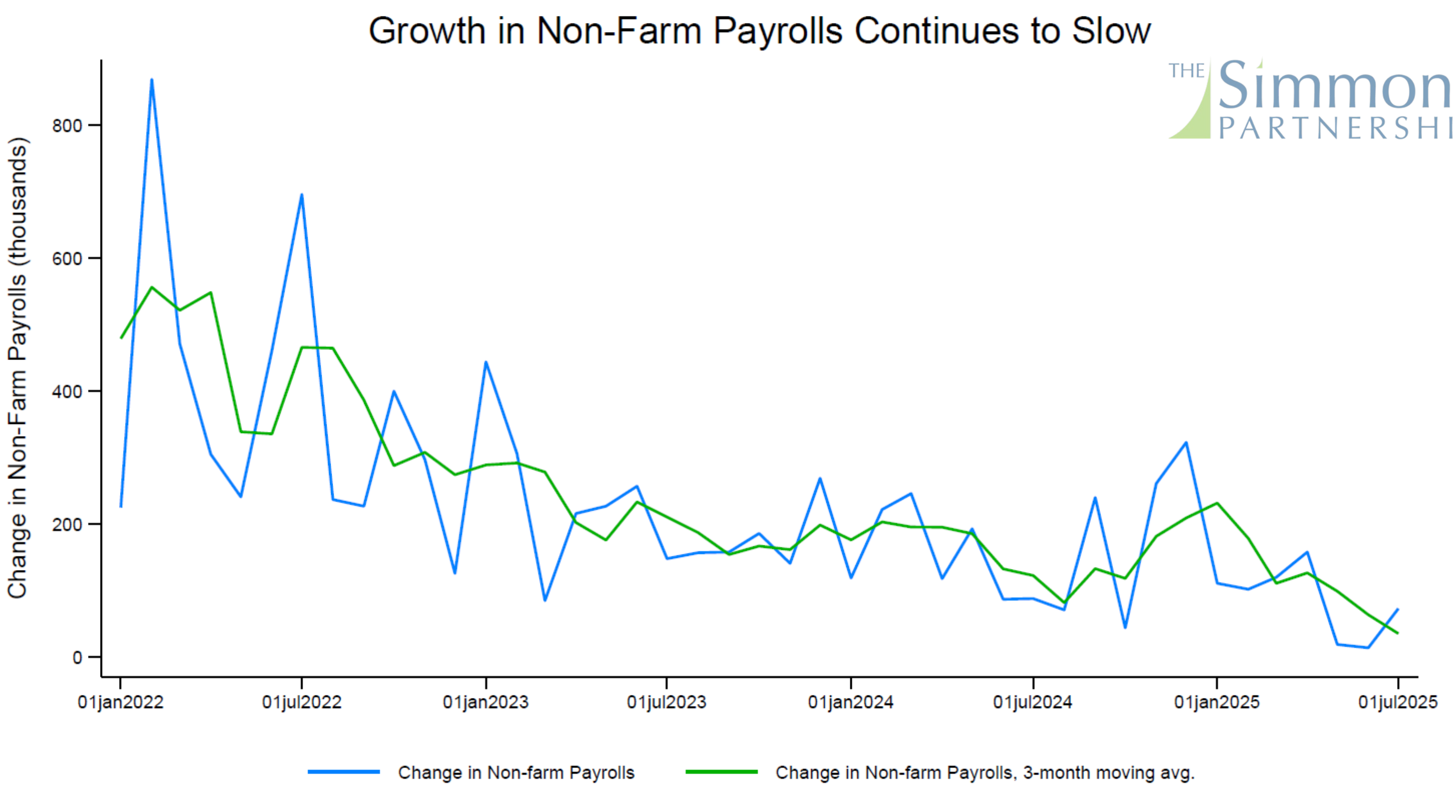


Contributions to Percent Change in Real GDP, Q2 2025



Data courtesy of the U.S. Bureau of Economic Analysis (retrieved from Federal Reserve Bank of St. Louis FRED Database)

Meanwhile, the labor market continues to stall out. Again, while the headline unemployment of 4.2% was little changed in July, BLS reported large downward revisions to employment growth for May (revised down to +19,000 workers from the previously reported +144,000 workers) and June (revised down to +14,000 workers from previously reported +147,000 workers). As shown below, this is a volatile series, but the downward trend in the 3-month moving average for non-farm payrolls is clear.



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