Weekly Market Flash

Economy Grows, Consumers Unimpressed

December 24, 2025

Sometime earlier this year we wrote about the disconnect between so-called “hard” and “soft” economic data. Hard data points include the headline numbers of inflation, unemployment and GDP growth, while the concept of soft data refers to surveys about how different cohorts in the economy – households, small businesses and the like – feel about the current situation and their near-term prospects. When we wrote about this during the first quarter of 2025, the disconnect was reflected as negative sentiments expressed in the “soft” surveys while the “hard” macro numbers seemed to validate an economy that was still performing relatively well.

Gross Domestic Skepticism

Well, that disconnect trend is alive and well as 2025 draws to a close. This morning we received the report on gross domestic product for the third quarter, after a two-month delay during which the Bureau of Economic Analysis, which produces the GDP report, was offline as a result of the government shutdown (the economic effects of said shutdown may show up in some form when the Q4 report comes out next month). For anyone hoping for a good growth story to see out the year, this report delivered it. The economy grew in real (inflation-adjusted) terms by 4.3 percent (annualized) from the beginning of July to the end of September. Consumer spending continued to surpass economists’ expectations, defying the widely-held concerns earlier this year of a consumer pullback. Meanwhile, investment in the building blocks of artificial intelligence continued apace, and somehow we also managed to export more than we imported during the quarter (a positive balance for net exports is additive to GDP). Economists did caution that the slowdown that didn’t happen in Q3 may be on tap for Q4 – but that’s a problem for another day, right? Meanwhile, the US economy’s often surprising resilience remains intact.

A little while after the GDP report came out, though, we got another wet blanket of a sentiment indicator. The Consumer Confidence Index, published by the Conference Board, weakened for a fifth consecutive month and remains well below its peak at the beginning of the year. One of the major areas flagged as a concern is the job market, with fewer respondents saying that job opportunities are plentiful, and more characterizing jobs as “hard to get.” The news wasn’t all bad – there was a slight drop in the percentage of respondents saying that a recession in 2026 was “very likely” – but for the first time in more than three years, the percentage of people saying their current family situation is bad was greater than the number saying that things are good.

Brought to You by the Letter K

If you have been reading articles about the economy recently, chances are that you have come across the concept of the “K-shaped” economy, with the upper slant of the K representing the increasing prosperity of wealthy Americans while the lower slant signifies the mounting struggles of their worse-off counterparts to keep up with higher prices, stagnant wages and fewer opportunities for moving up (or getting into the labor market at all, if you are a young job-seeker coming right out of college and wondering what on earth happened to those jobs you thought would be there as you grabbed your BS degree in computer science). Much of that resilience in consumer spending this year we noted earlier has come thanks to the fortunes of the upper deciles of income-earners, while establishments that cater more to those in the middle or lower end of the scale, such as McDonalds or Walmart, have supplied evidence of greater constraints experienced by their clientele. This dispersion of conditions explains at least some of the disconnect between hard and soft data. Reports like the Consumer Confidence Index contain a mix across all income and demographic categories, so dissatisfaction with the present state of play is likely to come through when all the responses are tallied up – eight deciles of "not so great" versus two of "doing just fine, thanks for asking."

Can the fortunes of a K-shaped economy get us through another twelve months? As we pore through the various musings of our peers in the economics world, the overall sense seems to be that 2026 will be a pretty good year. Not great, but not terrible. We'll see. Sentiment can shift on a dime, and right now the sentiment seems mostly influenced by how much better 2025 turned out than many imagined back in the first few months of the year. We are pretty confident that there will be unexpected hits to the collective, conventional wisdom from all sides.

For those who celebrate, have a very Merry Christmas.

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