Why the Economy Is So Tough to Read … and Getting Tougher

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Key takeaways

- Old rules of thumb for reading and reacting to a demand-driven economy can lead us astray now.
- Three forces are making the economy tougher to read: supply shocks, uncertainty, and strained data.
- The better question is not 'Is a recession coming?' but 'Is the economy being rewired?'
- Against these changes, what I am watching with the Fed, businesses, and families.

Every month the same question: is a recession coming?

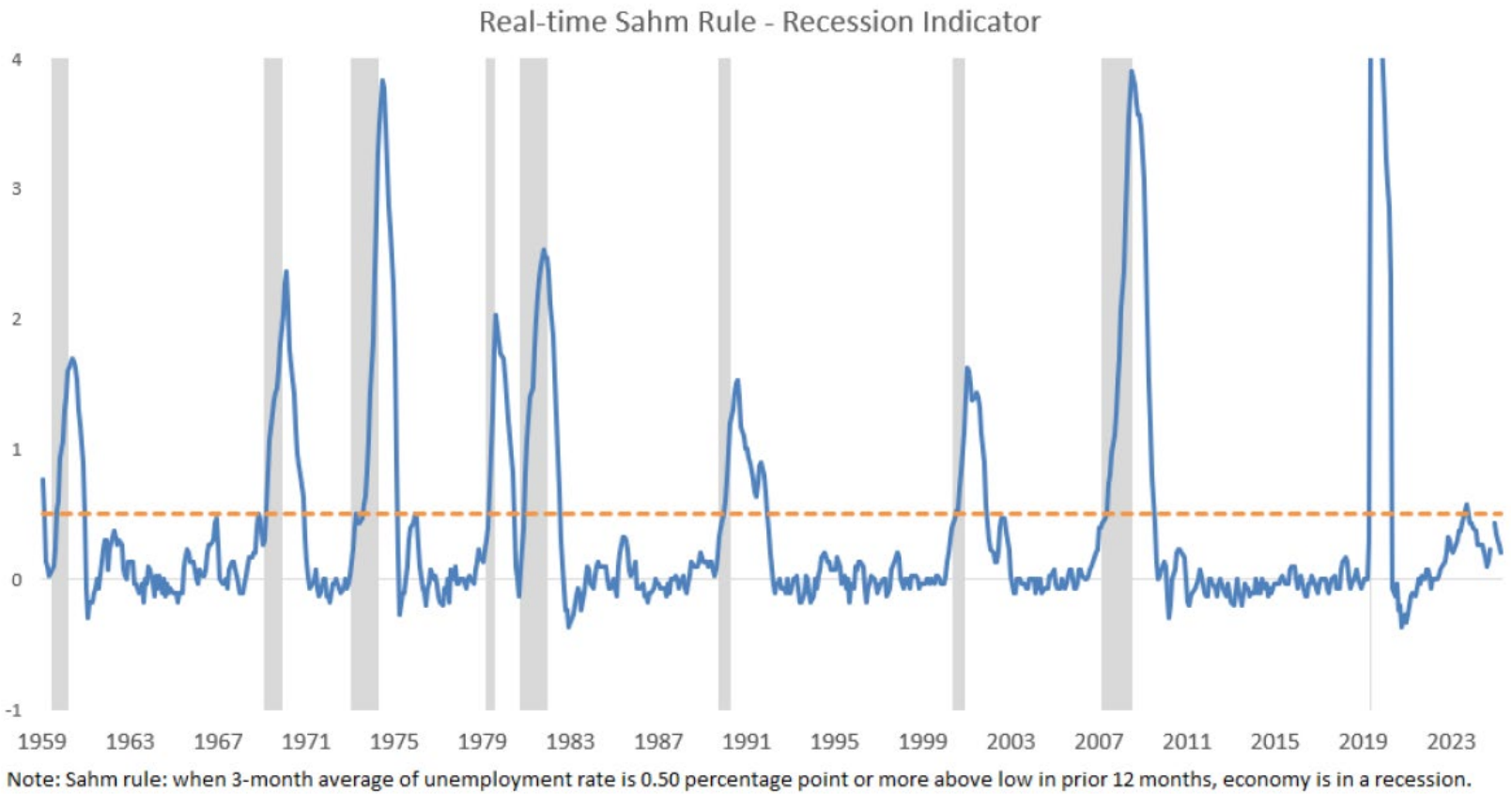
For years the answer has been no. That is not the same as the economy being fine.

1

Supply shocks broke the rules of thumb

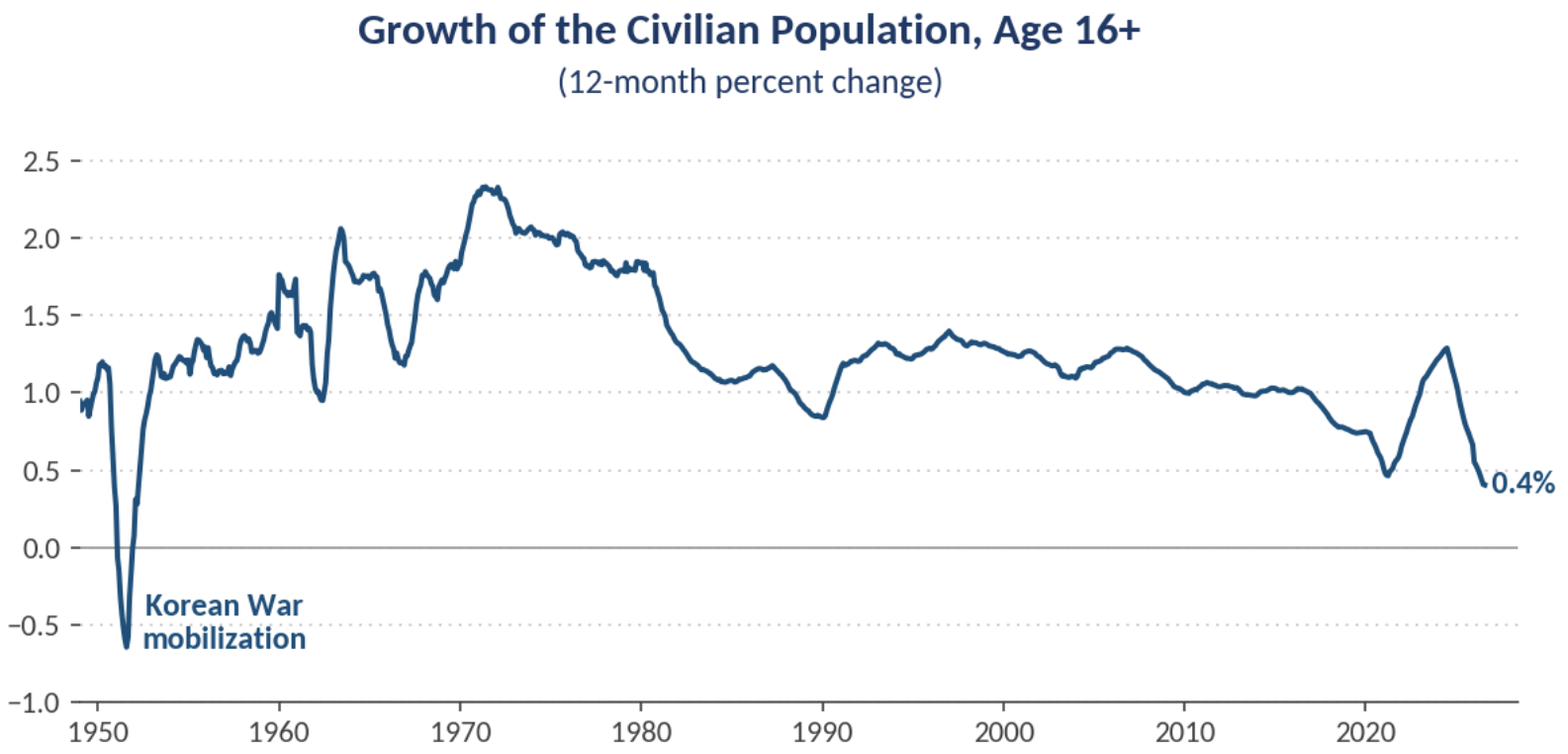
Pandemic, tariffs, immigration, energy, and now AI. Tools built for a demand-driven economy, including the one with my name on it, stopped working the way they used to.

My recession indicator triggered in 2024. No recession came.



- To propose a new automatic stabilizer, sending out checks as soon as a recession starts, I developed a recession indicator in 2019.
- Since 1970, a half-percentage-point rise in the unemployment rate over the prior year had occurred only early in a recession.
- By July 2024, unemployment had risen enough to trigger the rule, but it was clear that we were not in a recession. Weakening labor demand wasn't the whole story this time.

Unemployment rose in 2024 because more people were looking for work

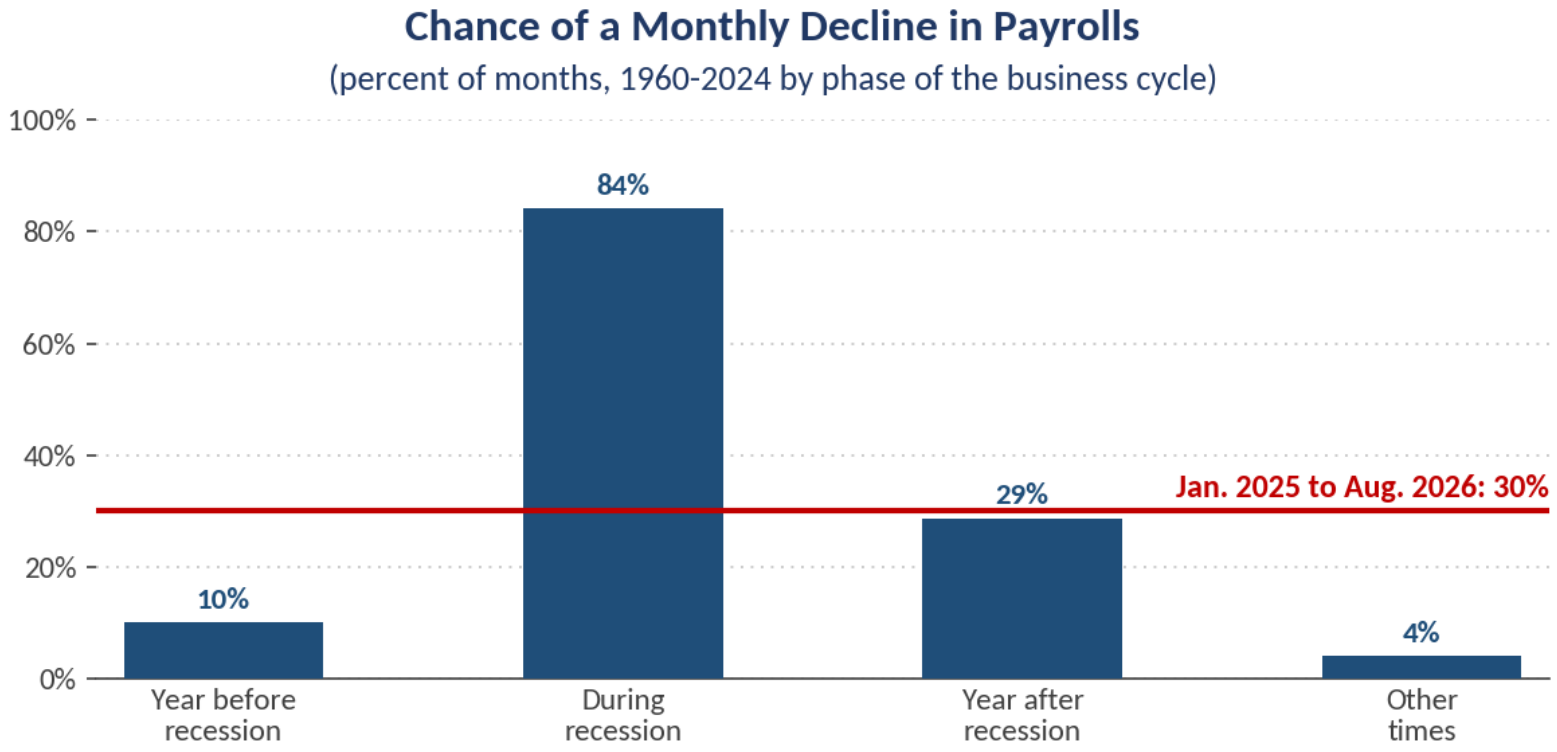


Source: BLS harmonized data from Coglianese, Murray, & Nekarda (2025) through Dec. 2025; BLS published data spliced on thereafter.
Note: Civilian noninstitutional population, age 16 and over. No Oct. 2025 data. Through Aug. 2026.

Labor supply was strengthening.

- A sharp increase in immigration after the pandemic pushed up population growth.
- Prime-age workers came back. By 2024, their participation had fully recovered from the pandemic and was near a 25-year high across many demographic groups, not just immigrants.

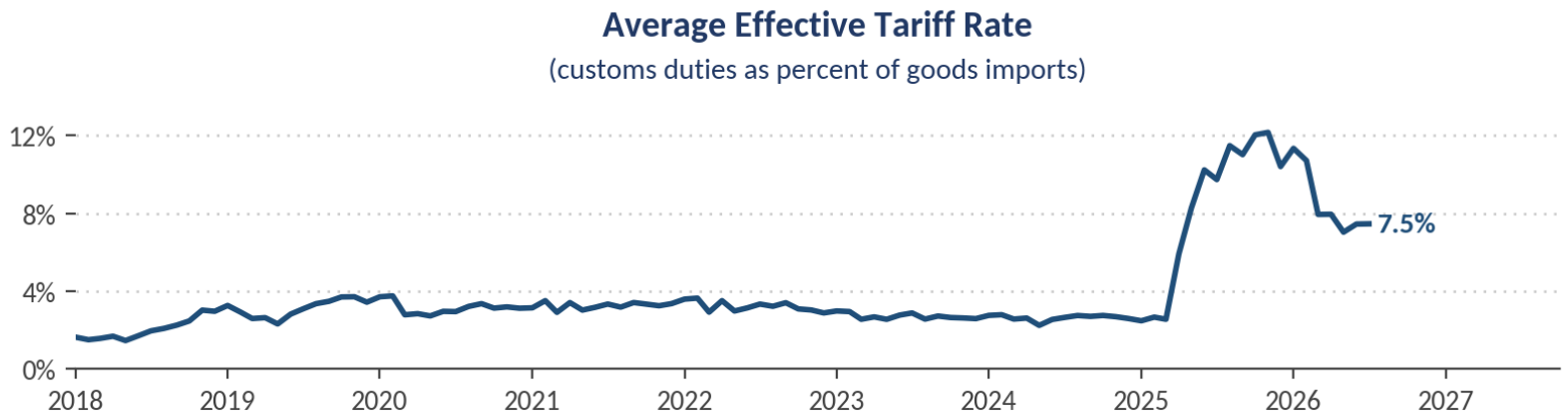
Now, payroll declines are frequent because the workforce is hardly growing

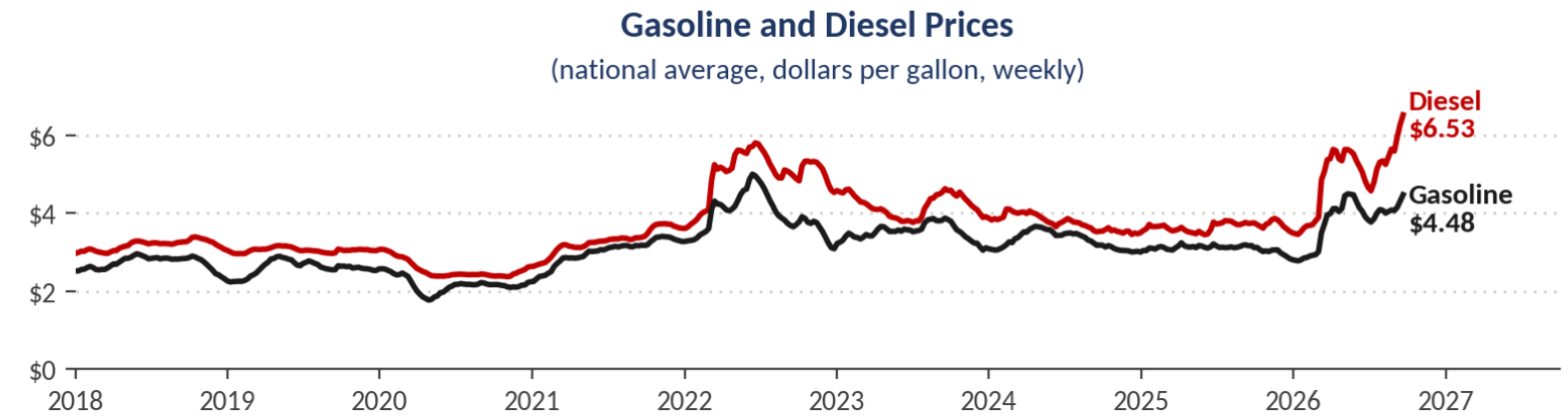


Source: Bureau of Labor Statistics, NBER. Note: Nonfarm payrolls as currently published. Recession phases from NBER dates; "year before" and "year after" are the 12 months around each recession. Recent share is 6 of 20 months.

- Since mid-2024, immigration has dropped sharply. Some immigrants have lost their work status, and deportations have risen. The result is very low labor force growth.
- So it takes little job creation to keep unemployment steady. Since 2025, payrolls have grown about 38,000 a month on average. With the average near zero, ordinary month-to-month swings produce frequent declines.
- Historically, payroll declines have been rare except in and around recessions. The declines now reflect a weak supply of workers more than weak demand for them.

Supply shocks – one after another – are affecting many parts of the economy

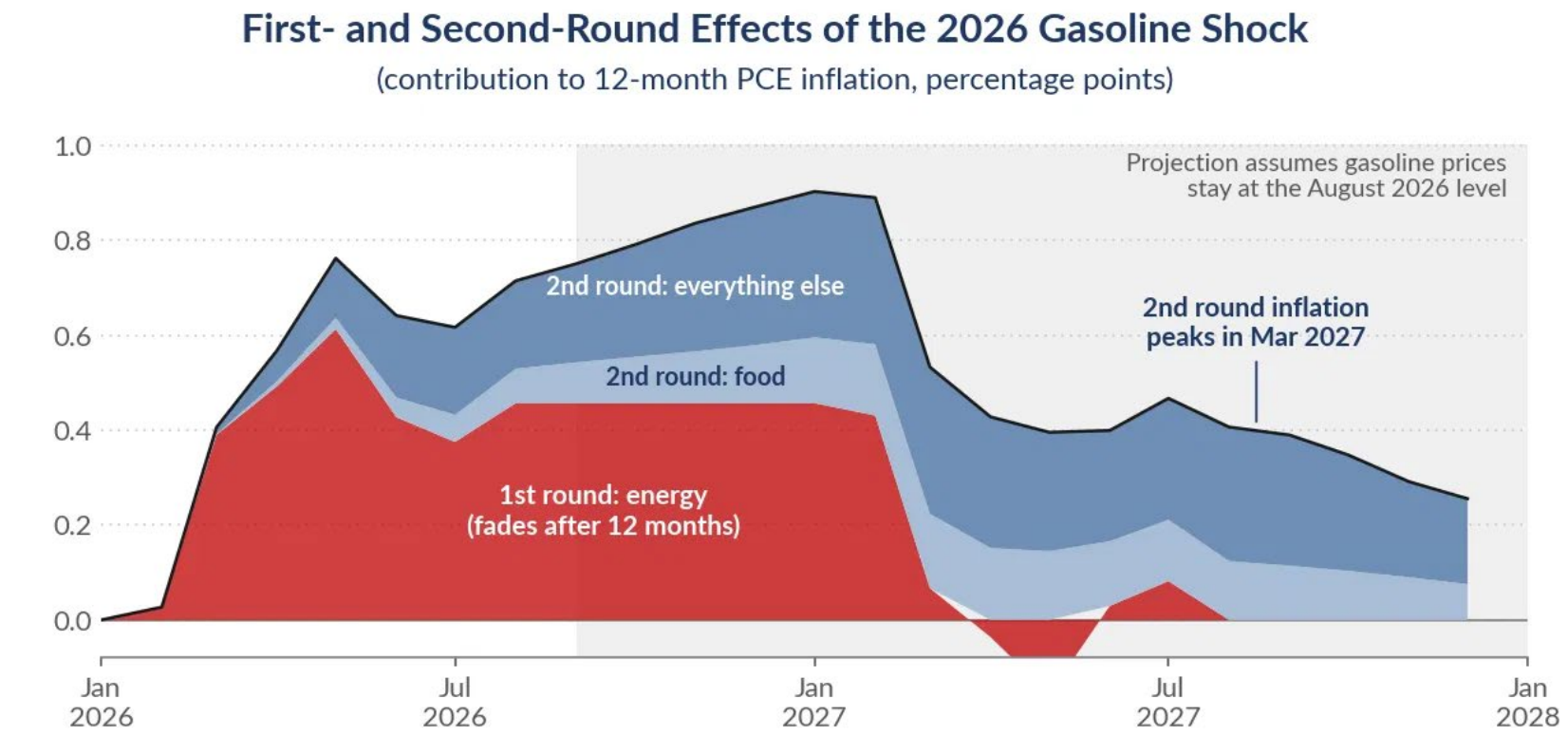




Source: Monthly Treasury Statement, Census Bureau, NCA calculations (tariff rate, through Jul. 2026); U.S. Energy Information Administration via FRED (fuel prices, weekly through Sep. 21, 2026).

- Supply chain disruptions during the pandemic and Russia's attack on Ukraine pushed inflation above 9% in 2022, the highest in four decades. The effects slowly unwound.
- In 2025, the Trump administration raised tariffs on goods from most US trading partners. Businesses found ways to lower the bill but still pay about triple the prior tariff rate.
- In 2026, a US and Israeli attack on Iran severely disrupted global energy supplies. Unlike the 1970s, the US now produces more oil than it uses, avoiding fuel shortages. But oil is priced on a world market, and US prices rose, too.

Supply shocks have complicated the Fed’s job, too



Source: Bureau of Economic Analysis, author's calculations. Note: First round is the direct contribution of gasoline and other energy goods (1.9% of spending) given the actual price path since Feb. 2026 (+27% through Aug 2026). Second round (food, core) applies historical pass-through profiles (2000-2026, ex 2020-21) to that path; the food and core-ex-airfares pieces are imprecise, roughly half to double the value shown. Both scaled to headline PCE.

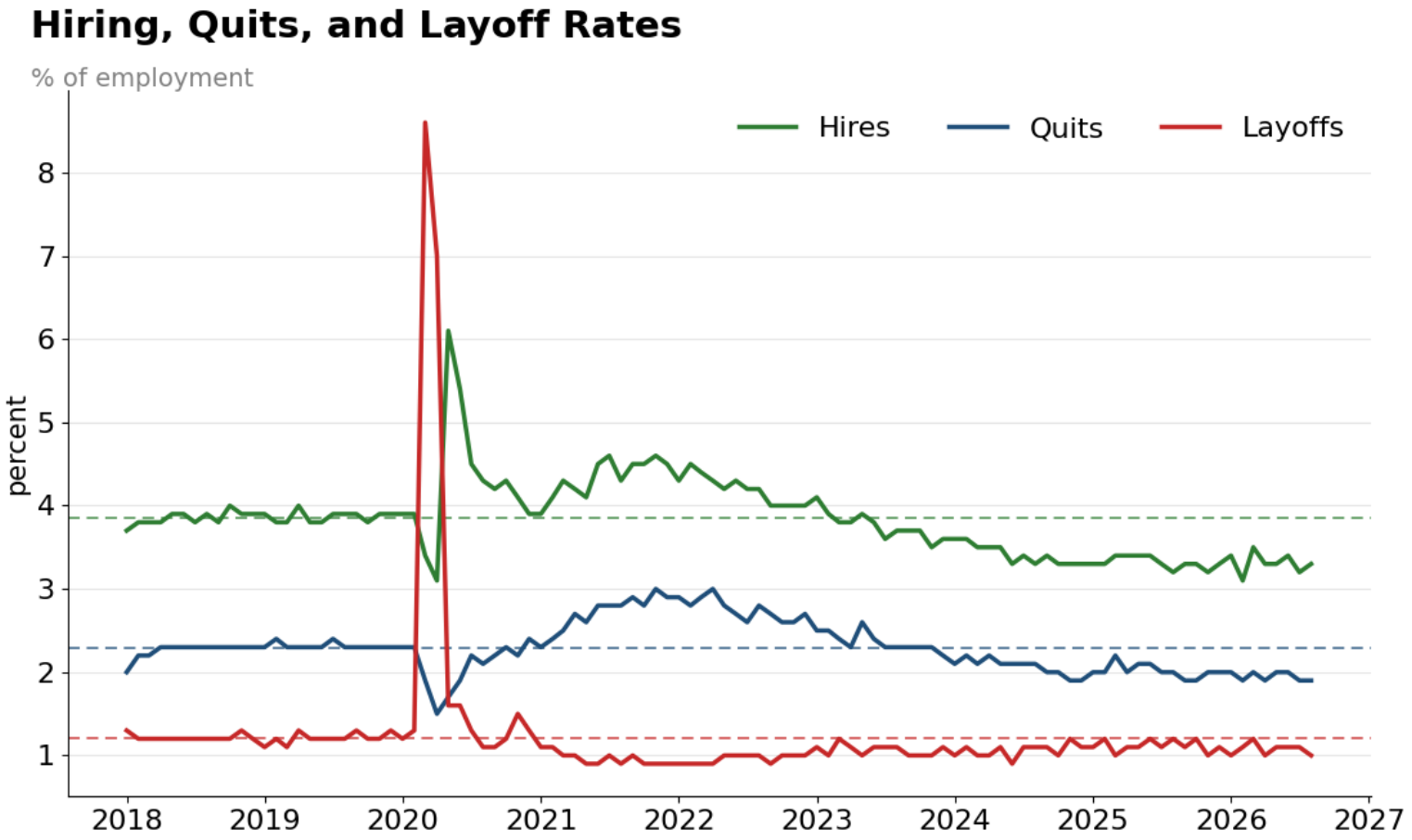
- Supply shocks push up on prices and down on growth, which pulls the Fed's two goals, stable prices and maximum employment, in opposite directions.
- Typically, the Fed 'looks through' shocks like tariffs or energy prices, because the first-round inflation effect fades even if prices stay high.
- The second-round inflation effects on non-energy spending build over time if prices stay high. That risk is why the Fed raised rates.
- Rate hikes alone won't bring inflation down. The current shocks need to unwind, and policy needs to stop adding new ones.

2

Uncertainty changed how people behave

Businesses that will not hire but will not fire. Families that wait. When the rules keep changing, standing still looks like the safe choice.

Low hire, low fire: firms are waiting, not cutting



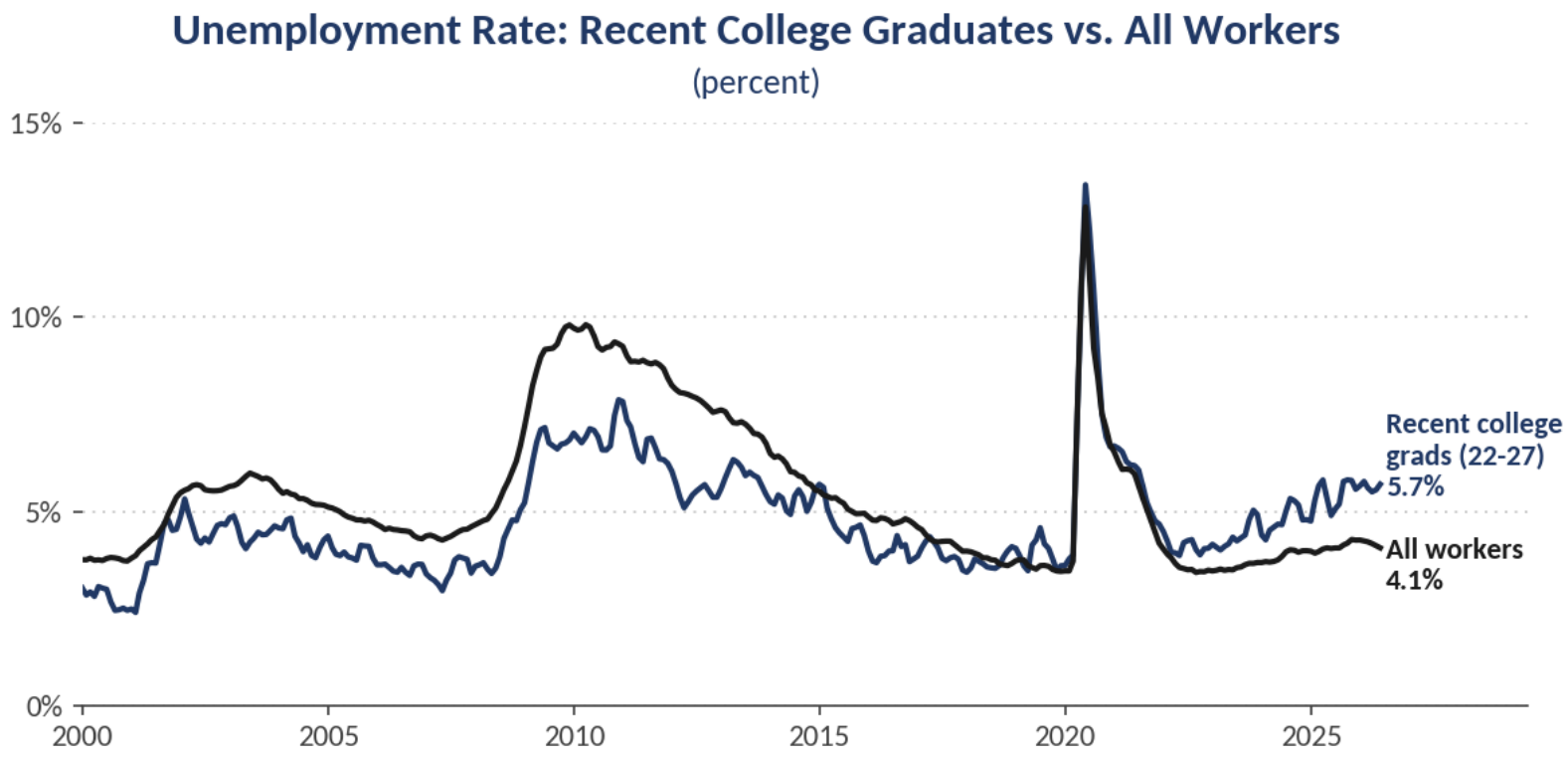
Source: BLS via FRED. SAHM Consulting. Note: horizontal dashed lines are the 2018-19 averages.

The overall labor market has been in an unusual 'holding pattern' in recent years:

- The hiring rate, 3.3%, is as low as it was in 2013-14, when unemployment was 2+ percentage points higher.
- But the layoff rate is at very low levels, so employers are holding on to workers but not hiring, even as the economy grows.
- Other signs it's not a good time for workers: voluntary quitting, often to move to another job, is low, and wage growth has cooled from its 2022 pace.

A "curious kind of balance" in the labor market, as Fed Chair Powell said.

For new college graduates, waiting shows up as fewer doors opening

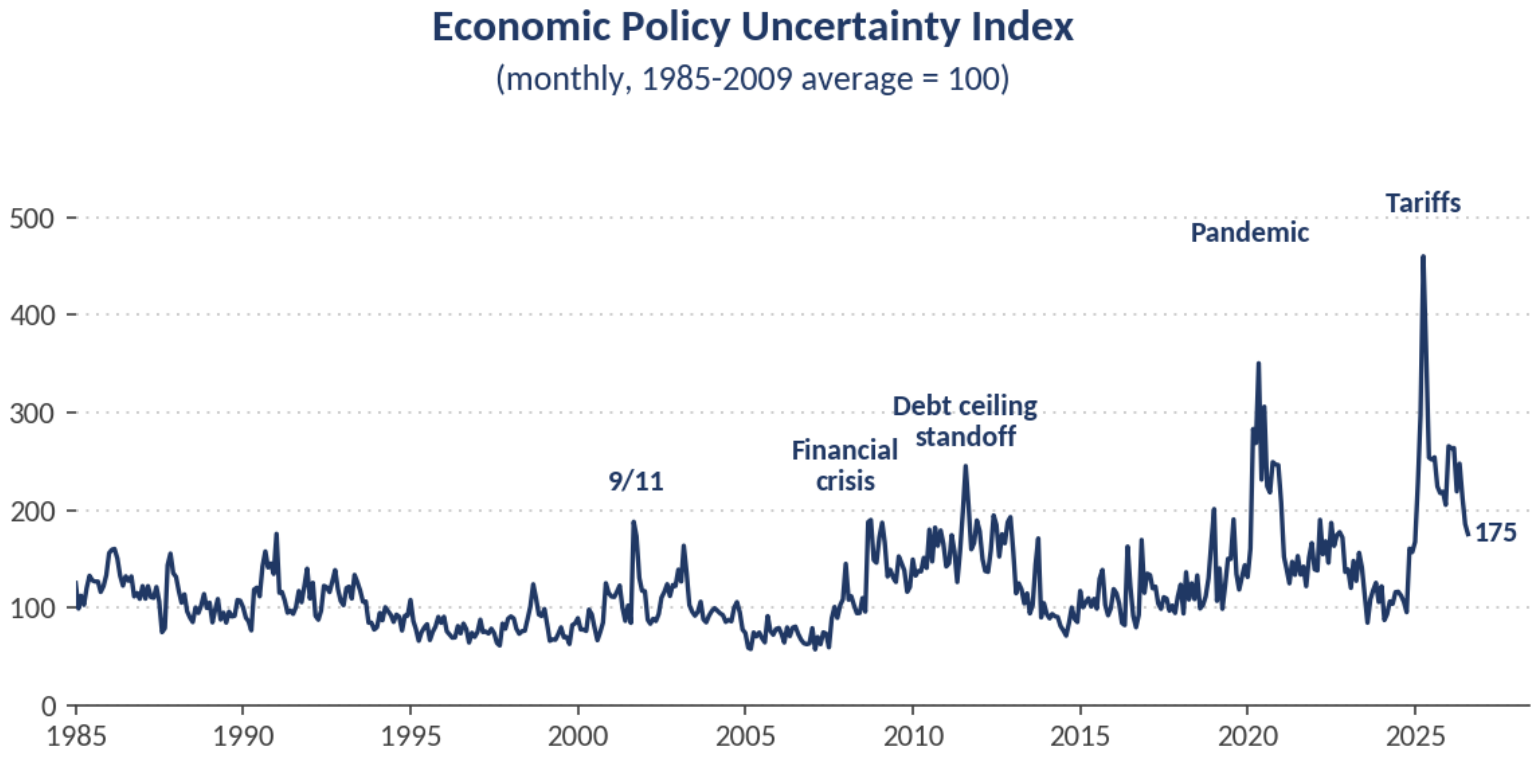


Source: Federal Reserve Bank of New York, The Labor Market for Recent College Graduates (Current Population Survey via IPUMS).
Note: Recent graduates are ages 22-27 with a bachelor's degree or higher. Seasonally adjusted, 12-month moving averages. Through Jun. 2026.

Recent college graduates have been especially affected by low hiring.

- Their unemployment rate is now well above the rate for all workers. Gap was small before the pandemic and has widened over the past three years, even as the economy grew.
- Underemployment has risen too: 42% of recent graduates are in jobs that do not require a degree, up from 38% in early 2023 when the job market was tightest.
- Recent college graduates still do better than all young adults, but the graduate advantage has shrunk.

Uncertainty adds to the reasons why hiring is low



Source: Baker, Bloom, and Davis, policyuncertainty.com, via FRED. Note: Index counts newspaper articles that discuss the economy, policy, and uncertainty, scaled so the 1985-2009 average is 100. Through Aug. 2026.

Low hiring has many possible sources:

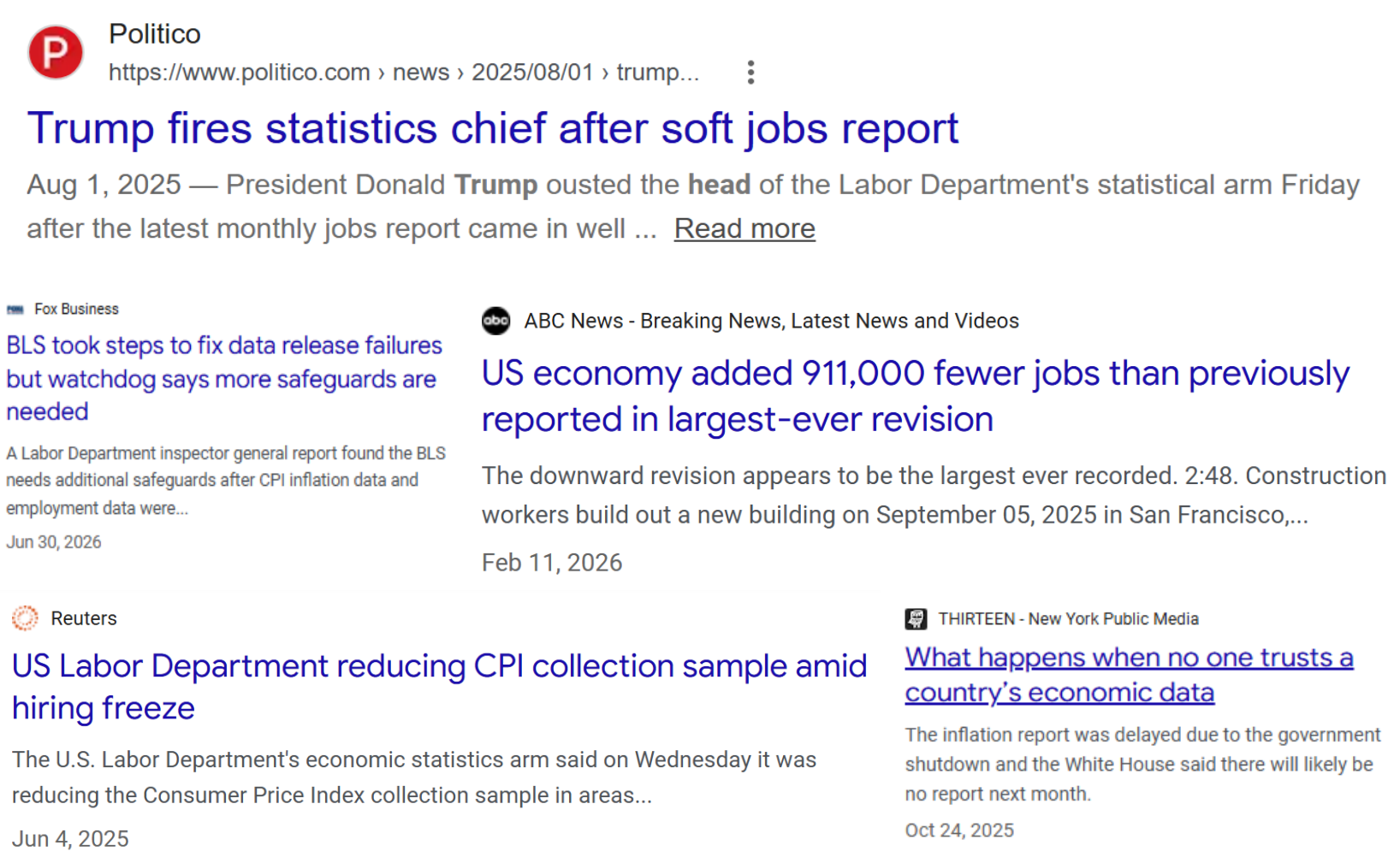
- The labor market was very tight in 2021-22, with lots of hiring and job switching, so some cooling was a normalization. But declines in hiring and quit rates went even further.
- Better-matched workers and automation adopted during the pandemic labor shortages made businesses more efficient, so they need fewer new hires to grow.
- Mixed evidence that AI is worsening outcomes for recent college graduates in AI-exposed fields.
- Uncertainty about trade policy, geopolitics, and AI discourages hiring and firing alike. Firms wait.

3

The facts themselves are in dispute

More private data than ever, and government statistics under growing strain. Even basic questions about the economy no longer have agreed answers.

Worries about the reliability of economic data are making headlines



Politico
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Trump fires statistics chief after soft jobs report

Aug 1, 2025 — President Donald **Trump** ousted the **head** of the Labor Department's statistical arm Friday after the latest monthly jobs report came in well ... Read more

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BLS took steps to fix data release failures but watchdog says more safeguards are needed

A Labor Department inspector general report found the BLS needs additional safeguards after CPI inflation data and employment data were...

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US economy added 911,000 fewer jobs than previously reported in largest-ever revision

The downward revision appears to be the largest ever recorded. 2:48. Construction workers build out a new building on September 05, 2025 in San Francisco,...

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US Labor Department reducing CPI collection sample amid hiring freeze

The U.S. Labor Department's economic statistics arm said on Wednesday it was reducing the Consumer Price Index collection sample in areas...

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What happens when no one trusts a country's economic data

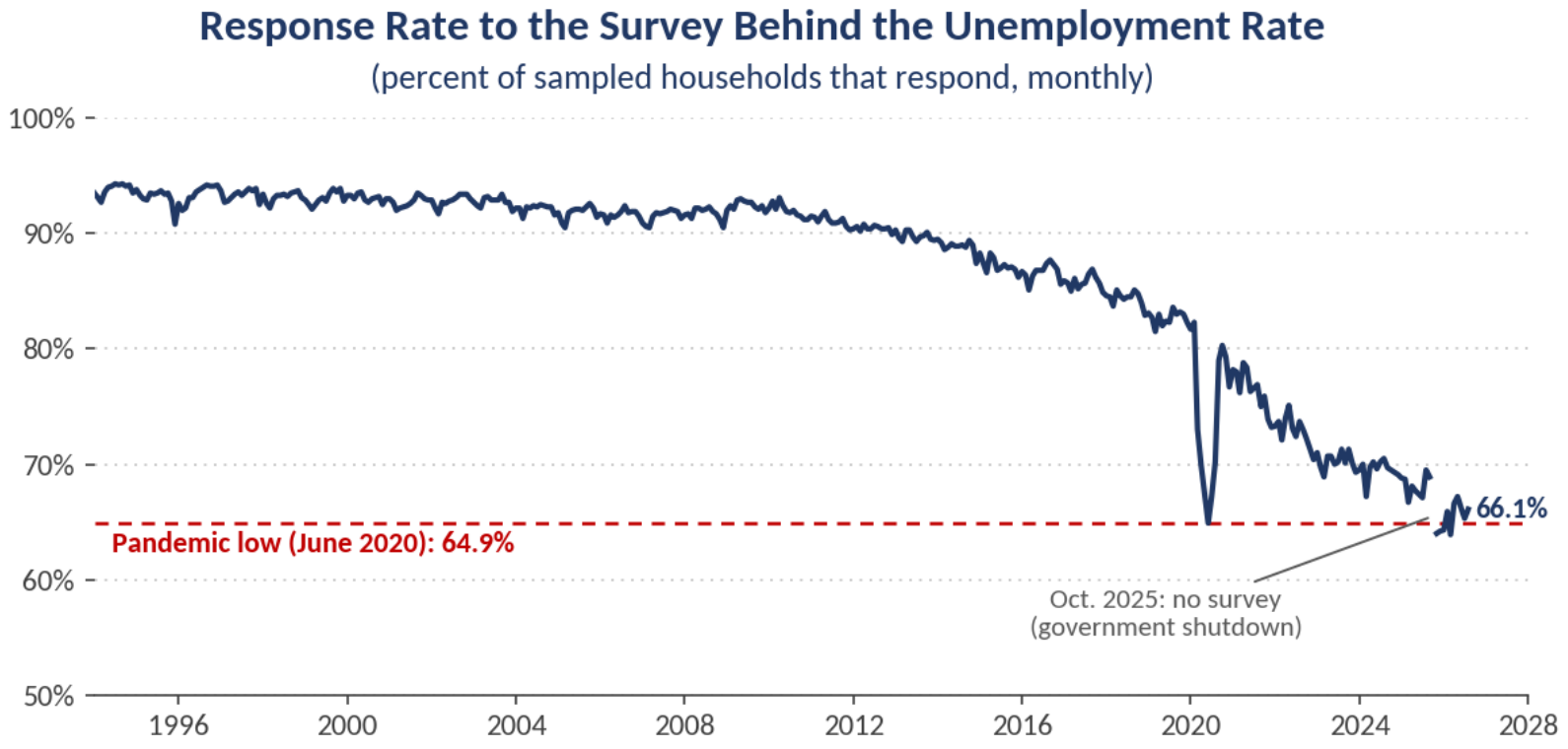
The inflation report was delayed due to the government shutdown and the White House said there will likely be no report next month.

Oct 24, 2025

Insufficient resources and big changes in the economy are the main culprits, but trust in economic statistics is eroding:

- For many years, the budgets of statistical agencies have not kept pace with rising costs. The shortfalls have worsened in the past two years.
- Large revisions to employment, data missing from the 2025 government shutdown, and noisy CPI data have all made headlines.
- President Trump fired the head of the Bureau of Labor Statistics after large downward revisions to payrolls.

Fewer people answer the surveys the economy runs on



Source: Bureau of Labor Statistics. Note: Current Population Survey household response rate, not seasonally adjusted. No survey in Oct. 2025 because of the government shutdown. Through Aug. 2026.

- Response rates to the Current Population Survey, the source of the unemployment rate, are near record lows. Since the shutdown, they have run at or below pandemic lows.
- Efforts to raise response rates, such as offering the survey online, have been slowed by budget constraints.
- Fewer responses make the estimates less precise. The 90% confidence interval for a monthly change in the unemployment rate was 0.2 percentage point for years and is now 0.3.

Less precise statistics mean that changes are more often noise. We can miss early signals or get a false signal.

The question is not whether a recession is coming.

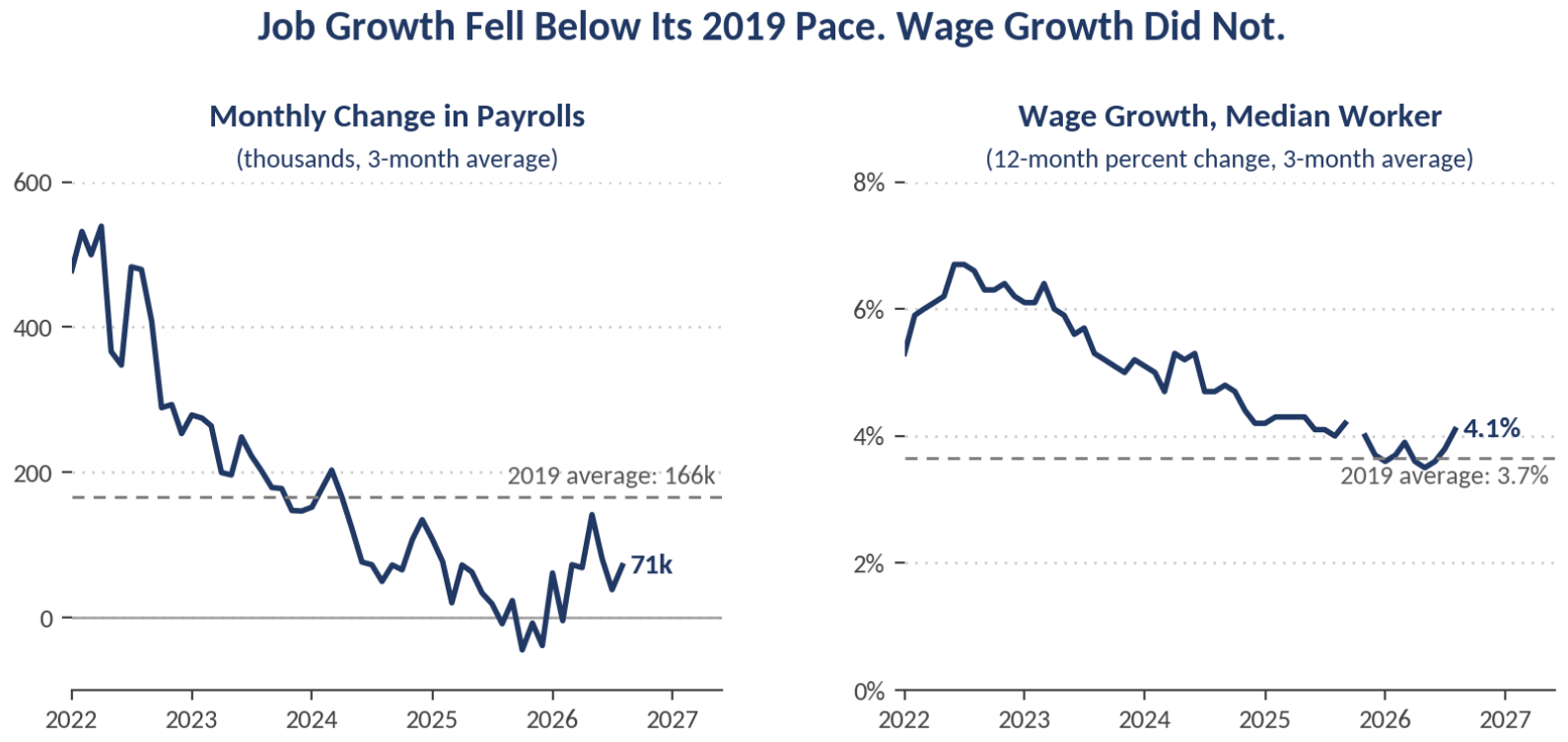
It is whether the economy is being rewired.

4

Recession or rewiring? How to tell the difference

What the old signals can and cannot tell us, and how the Fed, businesses, and families can navigate an economy that keeps getting tougher to read.

Signals that still work, signals that need a second look



Source: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta Wage Growth Tracker. Note: Wage growth is the median 12-month change in hourly wages for the same workers, which limits composition effects. No wage data for Oct. 2025 (government shutdown). Through Aug. 2026.

- Within a sector, look across activity and price measures. For example, employment, unemployment rate, and wages can help sort out supply vs. demand.
- Look across sectors of the economy: an unemployment rate rising, but business and consumer spending rising, is not a recession.
- Drill down below the headline numbers. Emerging trends show up in smaller groups first.
- Smooth out the month-to-month noise. 3-month or 6-month averages.

What I'm watching next: tips for navigating the economy

The Fed

- Watch second-round inflation. It will shape Fed's rate path.
- Fed in transition: The Committee is a clearer signal than the Chair.

Businesses

- Watch whether AI use catches up with AI spend.
- Track earnings. Adjustments to cost shocks like tariffs and energy vary across size and sector.

Families

- Watch buffers like savings and wealth; they are a key to resilience.
- The labor market remains the linchpin for consumers; old rules are not entirely overwritten.

Thank you

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