

Dutta's Monetary Thoughts

No sign of a Golden Age here

Neil Dutta

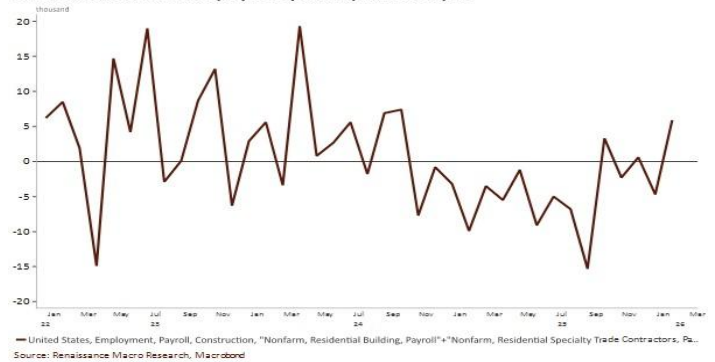
Housing: units under construction to drop

- We've seen some enthusiasm creep into housing. Residential construction employment climbed in January. Single-family housing starts have advanced for three consecutive months through December. New home sales have strengthened over this period too. Stepping back, however, I don't think the housing story has changed all that much and expect continued downward pressure on residential investment.

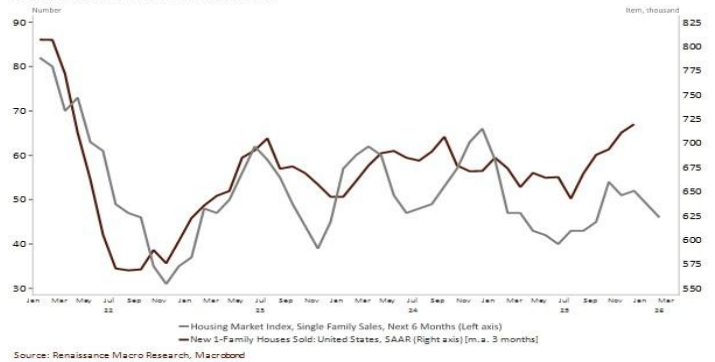
- There is some evidence that activity at the end of last year has overshot underlying fundamentals. As an example, single-family building permits are essentially unchanged since September. New homes sold but not yet started are off roughly 25 percent against last year well beyond the drop in starts. Homebuilder sentiment remains weak: in February, homebuilders reported the weakest buyer traffic since September.

- Residential construction will remain under continued downward pressure because housing starts are running below housing completions.

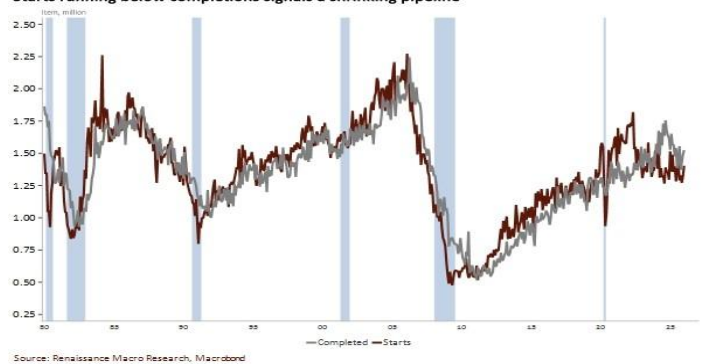
Residential construction employment picked up at start of year



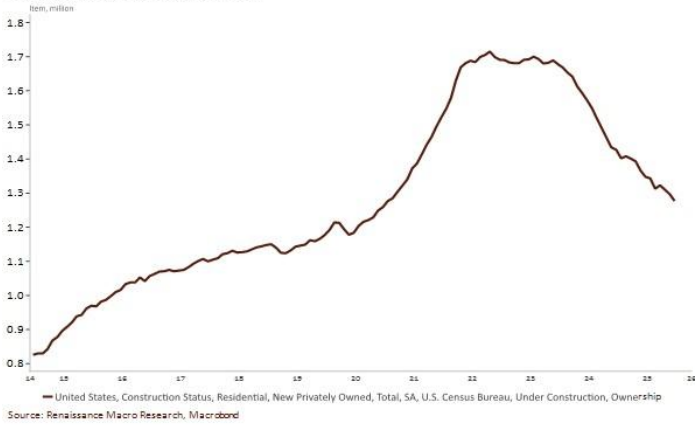
Builder sentiment remains subdued



Starts running below completions signals a shrinking pipeline



Declining units under construction

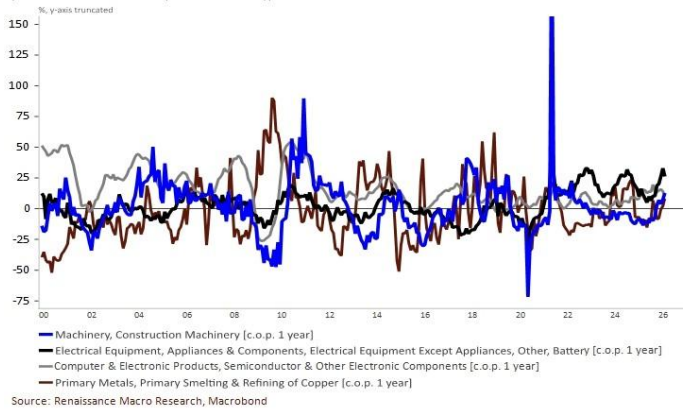


- As a result, units under construction will mathematically fall. If you're adding fewer new projects to the pipeline than you're finishing and removing, the middle bucket — units actively under construction — declines. The BEA measures residential investment by the value of construction put in place and so the stock of units under active construction is what determines residential investment

US factories taking off?

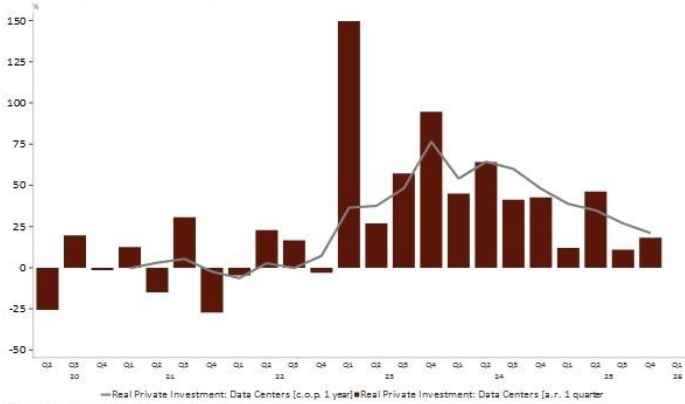
- In a similar vein, manufacturing has seen renewed optimism. There's been an uptick in manufacturing production, the ISM Manufacturing PMI has climbed, transportation activity is said to be advancing. Inventories are being replenished, but I'd stop short of arguing for a big turn.

Tech capex boom has been an important driver of factory output
(Industrial Production (SA, 2017=100))



- The tech capex boom is an important driver of factory output. There has been strong growth in computer & electronic products and batteries, as an example. We've also seen strong growth in the industries adjacent to the AI data-center build out such as power transmission and construction machinery.

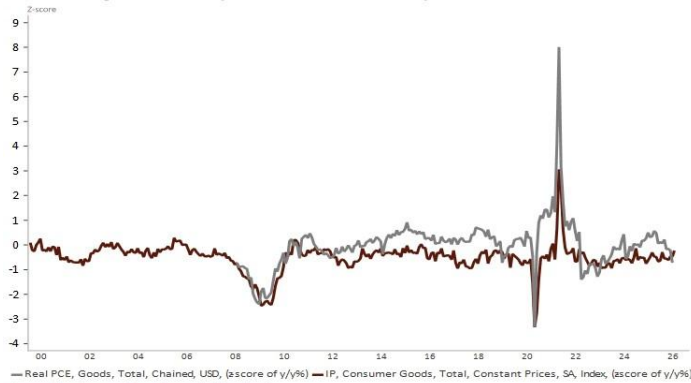
Data center real investment growth is slowing



Source: Renaissance Macro Research, Macrobond

- It is worth noting that real investment in data-centers has been easing over the last year.

Household goods consumption has been flat for a year



Source: Renaissance Macro Research, Macrobond

- Importantly, the three main end markets for US manufacturing are quite soft. First, household goods consumption has been flat for the last year.

Residential construction and related manufacturing face sustained headwinds



Source: Renaissance Macro Research, Macrobond

- Next, residential construction and related manufacturing will face a sustained headwind as the under-construction pipeline drains. Lastly, export activity is soft in the face of trade policy uncertainty and sluggish growth across our major trading partners.

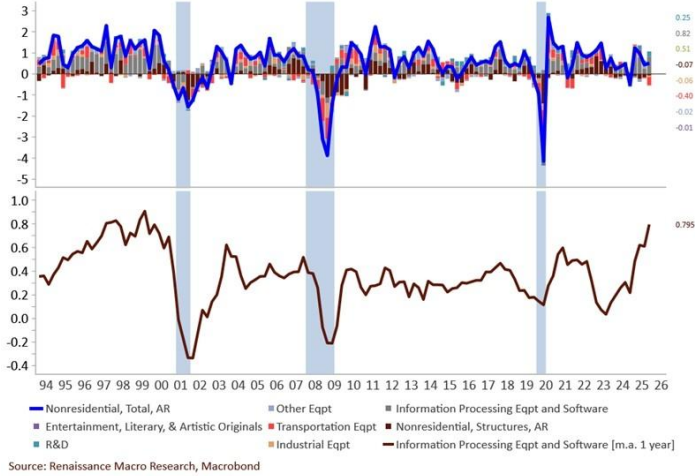
There has been some evidence that trucking activity has improved, but there is good reason to temper optimism. For one, ship counts are sliding against last year. Ship counts from Asia to the US are down about 10% against last year. Loaded inbound container activity to US ports confirm this message. That suggests existing inventory is being distributed from

- warehouses. Put differently, trucks are moving what is already here.

Bumbling breadth

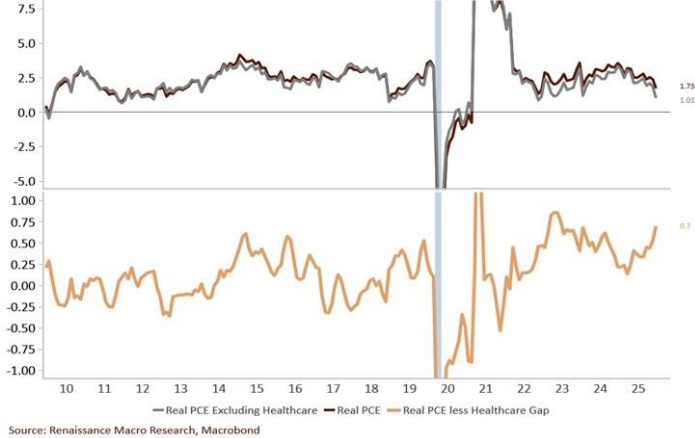
- While topline growth is respectable, conditions under the surface show that the economy is operating on less than a handful of cylinders. There is not much holding up investment or consumers' spending.

Tech is largely all that is driving capex

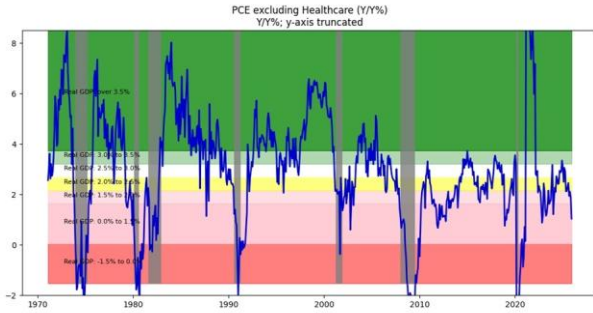


- Nonresidential business fixed investment represents 15 percent of GDP and the distribution of growth is quite narrow. In Q4, private nonresidential business fixed investment added 0.5ppt to US GDP; however, information processing equipment and software investment added a combined total of 0.8ppt. That contribution is on par with the dot-com era. By contrast, structures, industrial and transportation equipment investment all declined. Together, these three components cut US GDP by 0.5ppt.

Ex-healthcare, consumption is weak and slowing



- Turning to consumers' spending, healthcare appears to be carrying too much weight. Real PCE exhealthcare has climbed just 1.0% over the last year. Healthcare services spending added a whopping 0.7ppt to consumption growth while spending on goods has been flat.



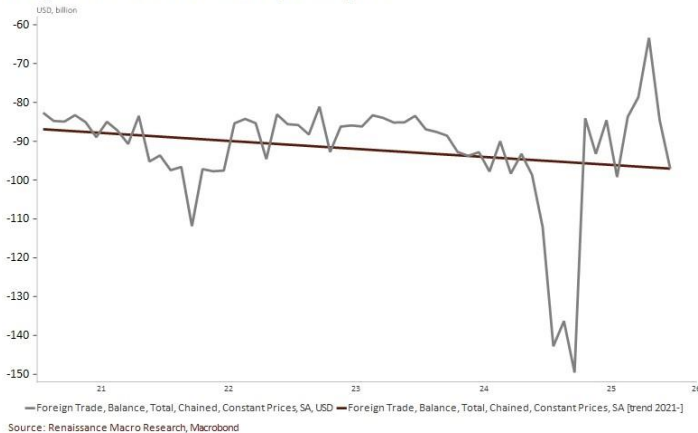
- Our chart shows the ranges of real GDP growth consistent with a given growth rate in real PCE exhealthcare. The current growth rate is consistent with real GDP in range of 0-1.5%.

- Ultimately, if real income growth does not accelerate, it is hard to see consumers' spending picking up. Over the last year, real incomes ex transfers are up just 0.2 percent. One reason we anticipate ongoing cooling is because wage growth is poised to slow. According to data from Indeed, wage growth in advertised jobs slowed to 2.0 percent in January. Absent a big turnaround in aggregate hours, it is hard to see why incomes perk up.

Respectable, but not a boom

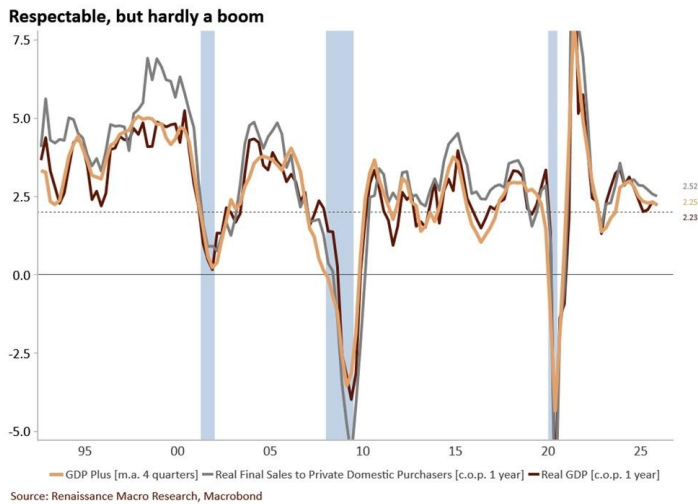
- Growth is respectable, but the data aren't consistent with an economic boom. Underlying activity is consistent with growth just above two percent. There is no evidence, at least not yet, that productivity is taking off.

Real goods trade balance back on its pre-Trump trend



- First, there is quite a bit of noise in the data between shutdowns and shifting headlines around trade. The trade deficit jumped in early 2025 as firms rushed to beat tariffs, front-loading imports. In the subsequent months, imports declined. Our nearby figure shows the real trade balance in goods compared to its pre-Trump baseline. The gap is back on trend. The latest news and the threat of additional trade actions will likely push up imports. This import-shifting creates noise in the data but must also be costly for firms.

- Over time, I would expect tariffs to create some improvement in the trade balance, but it will be a long process. For one, there is the risk that some tariffs come off. Tariffs are meant to keep cheap imports from entering the country. The political anxiety of the day is all about affordability. Second, shifting production to the US does not happen overnight. Decisions to build plants are irreversible. When the uncertainty around tariffs is high, the likelihood of those decisions getting made goes down.

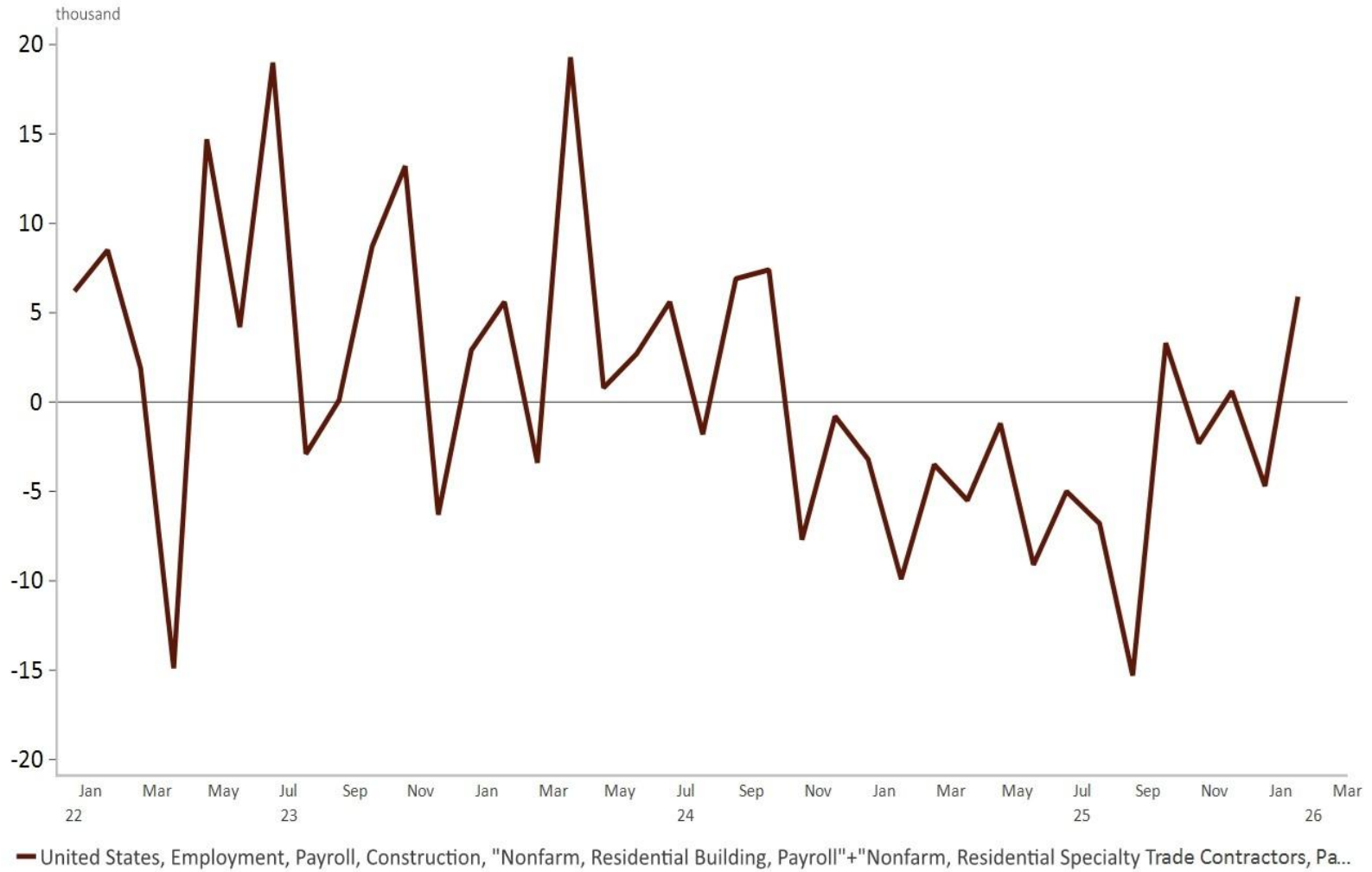


At any rate, it is one reason to focus on core measures of GDP. Two measures are worth following.

- Private final sales to domestic purchases (PDFP) exclude government, inventory investment and trade. This measure is about as clean a signal as you’re going to get. In Q4, PDFP ran 2.4 percent SAAR, rising 2.5 percent in 2025, a 0.4ppt decline from 2024.
- I also like the GDP Plus measure from FRB Philadelphia. Think of GDP Plus as a weighted average of GDP and Gross Domestic Income, informed by employment. In Q4, this measure ran 2.1 percent SAAR and has been generally slowing over the past year.

In short, growth was probably overstated somewhat in the Q2-Q3 period. Underlying activity is closer to 2.0 percent than 3.0.

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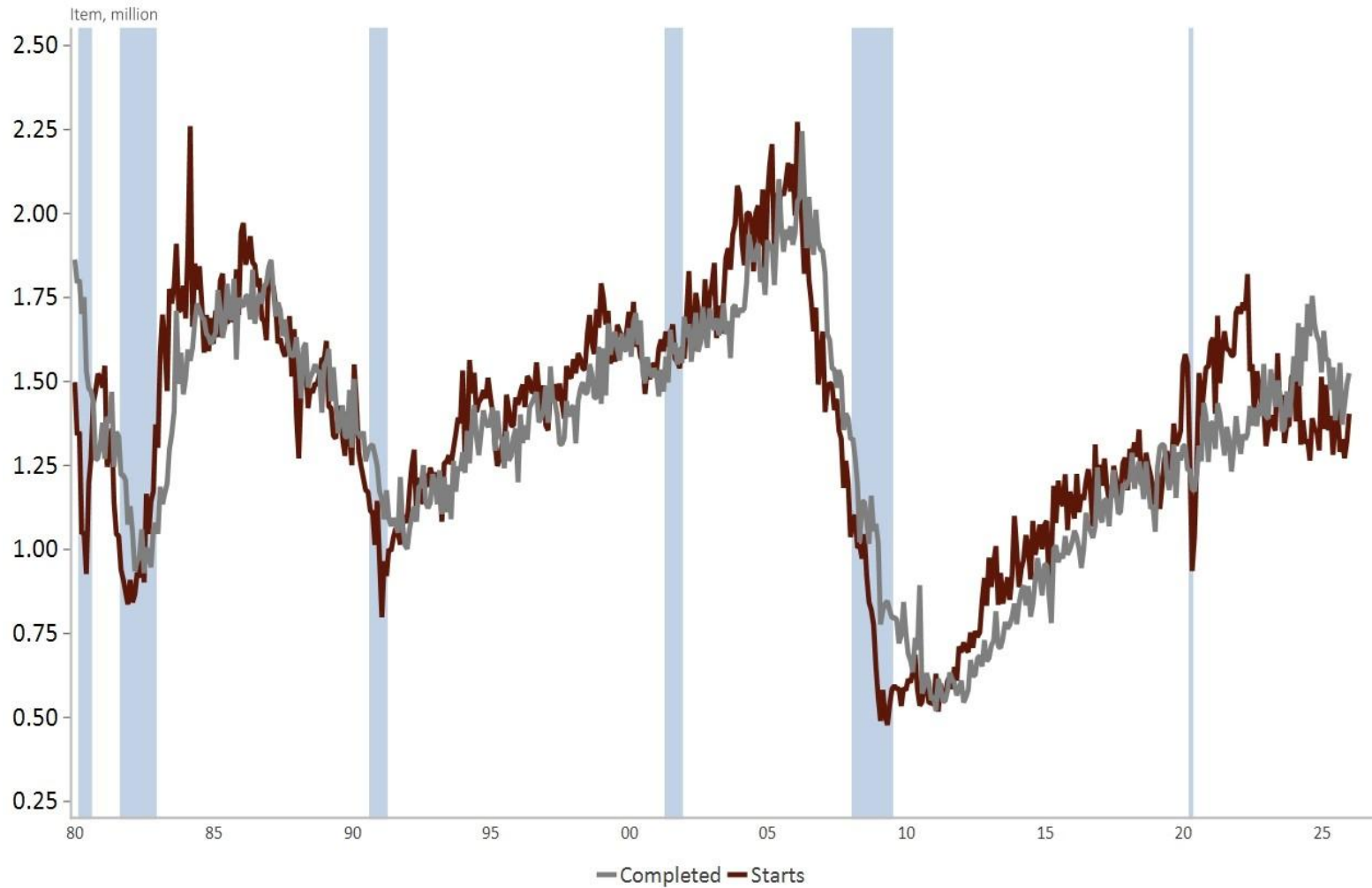
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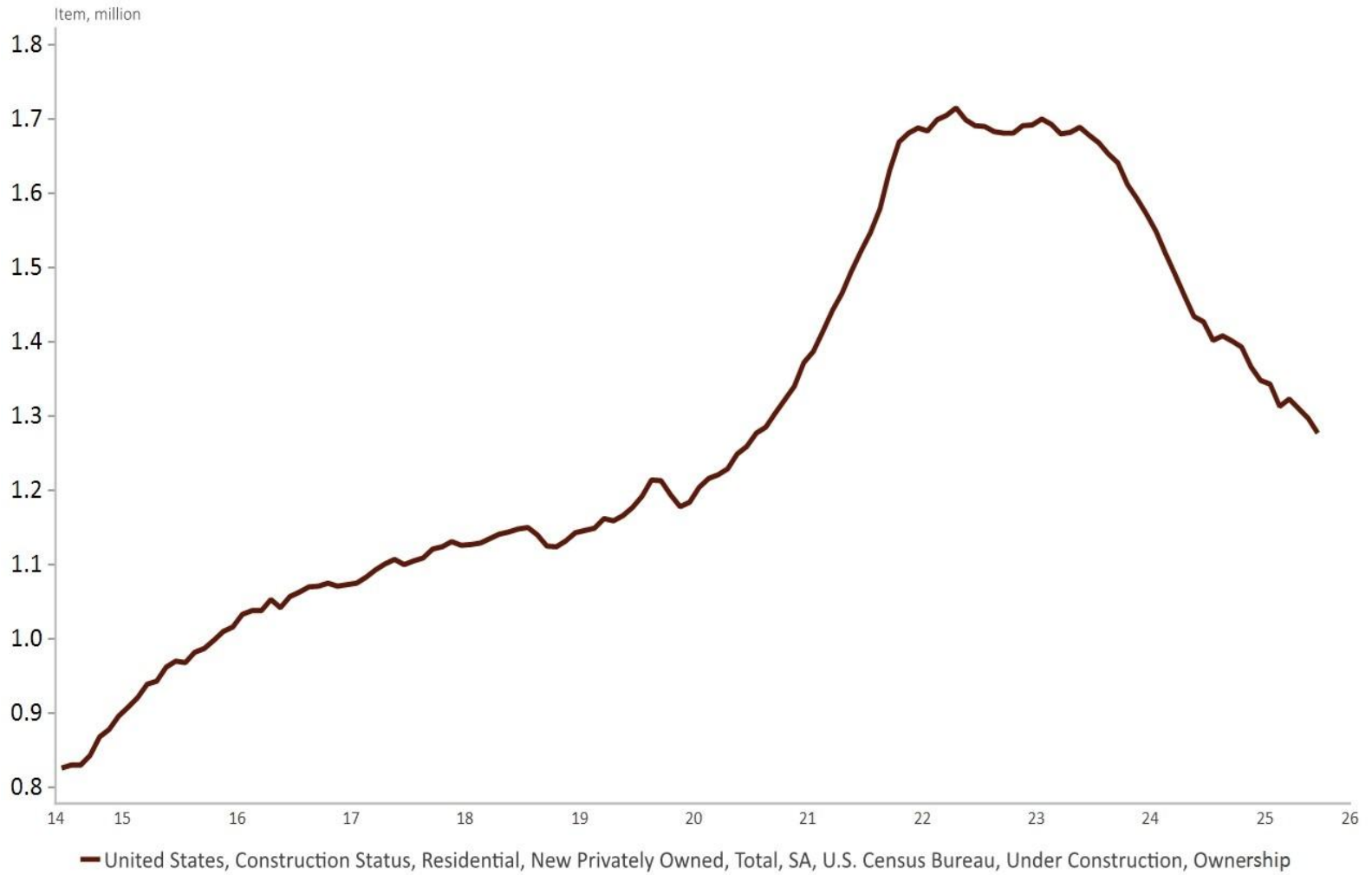
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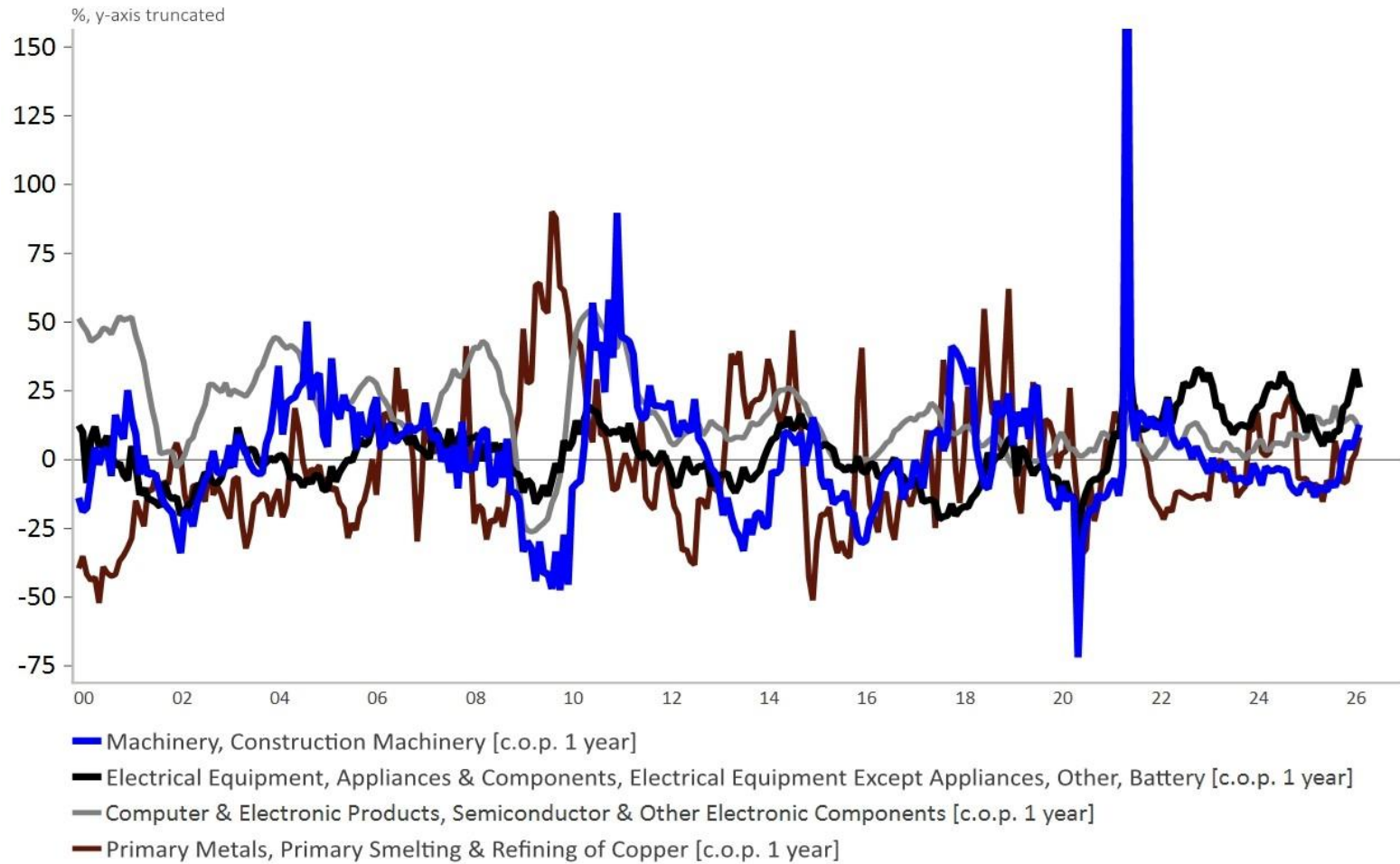
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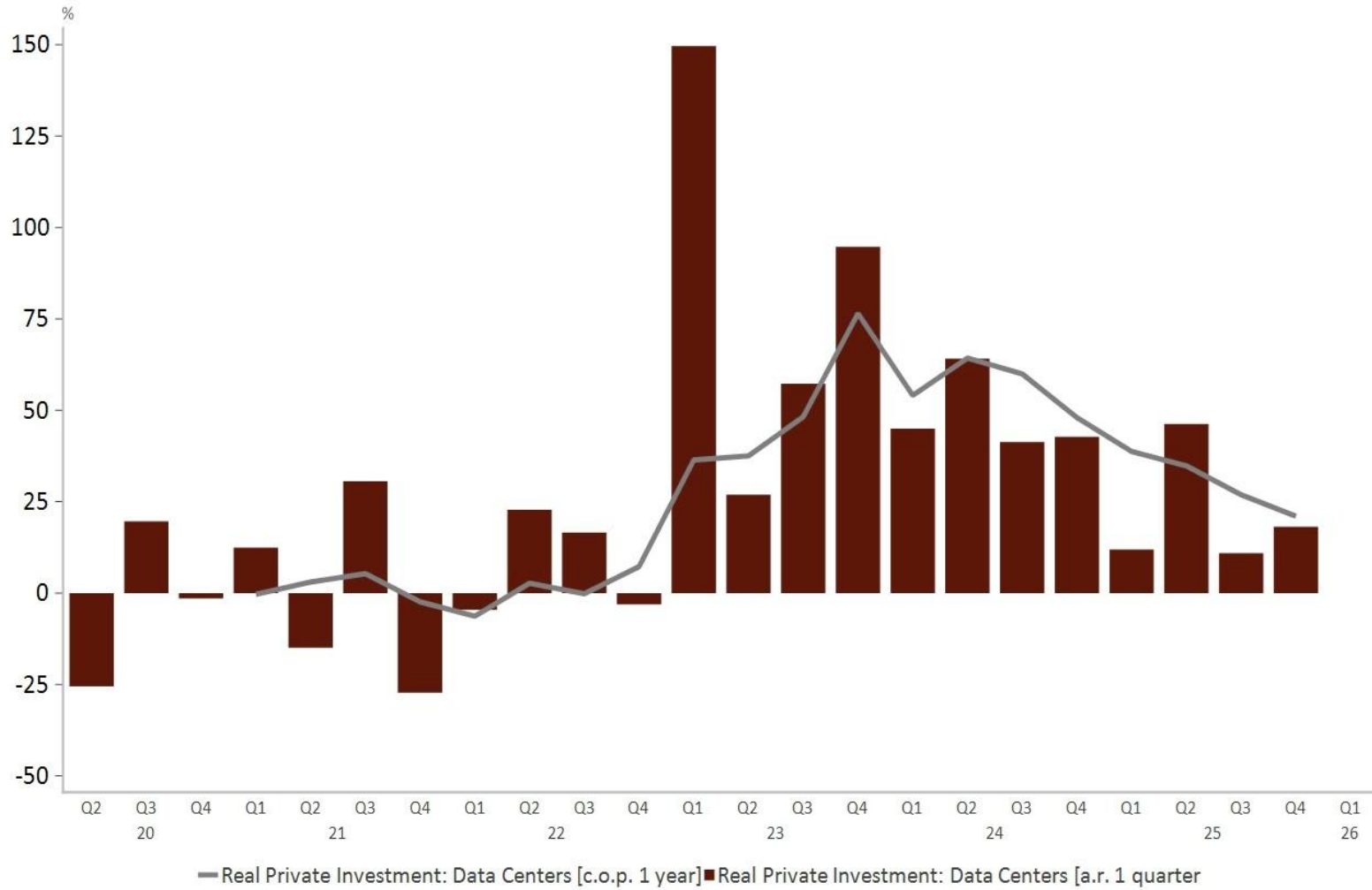
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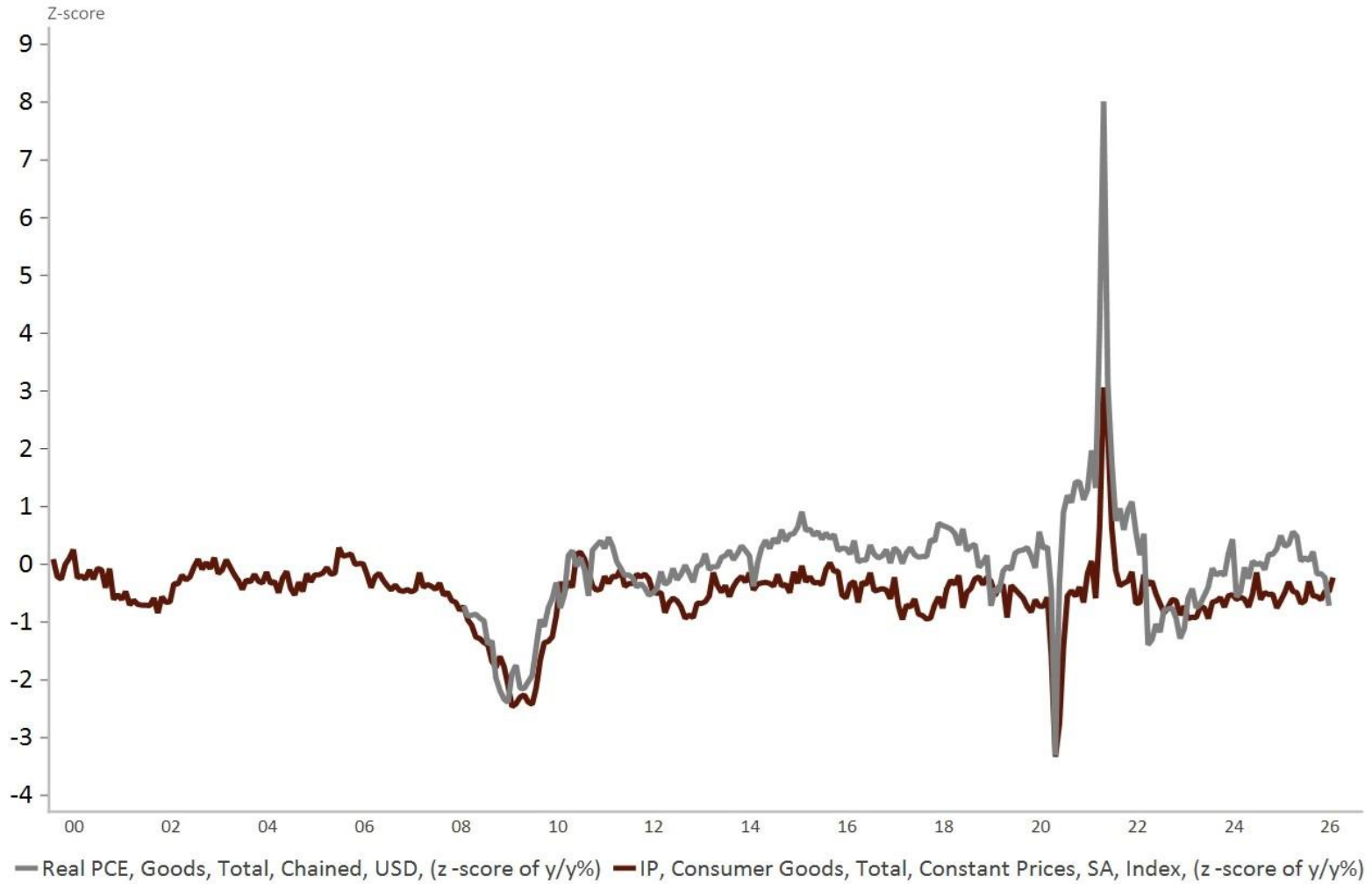
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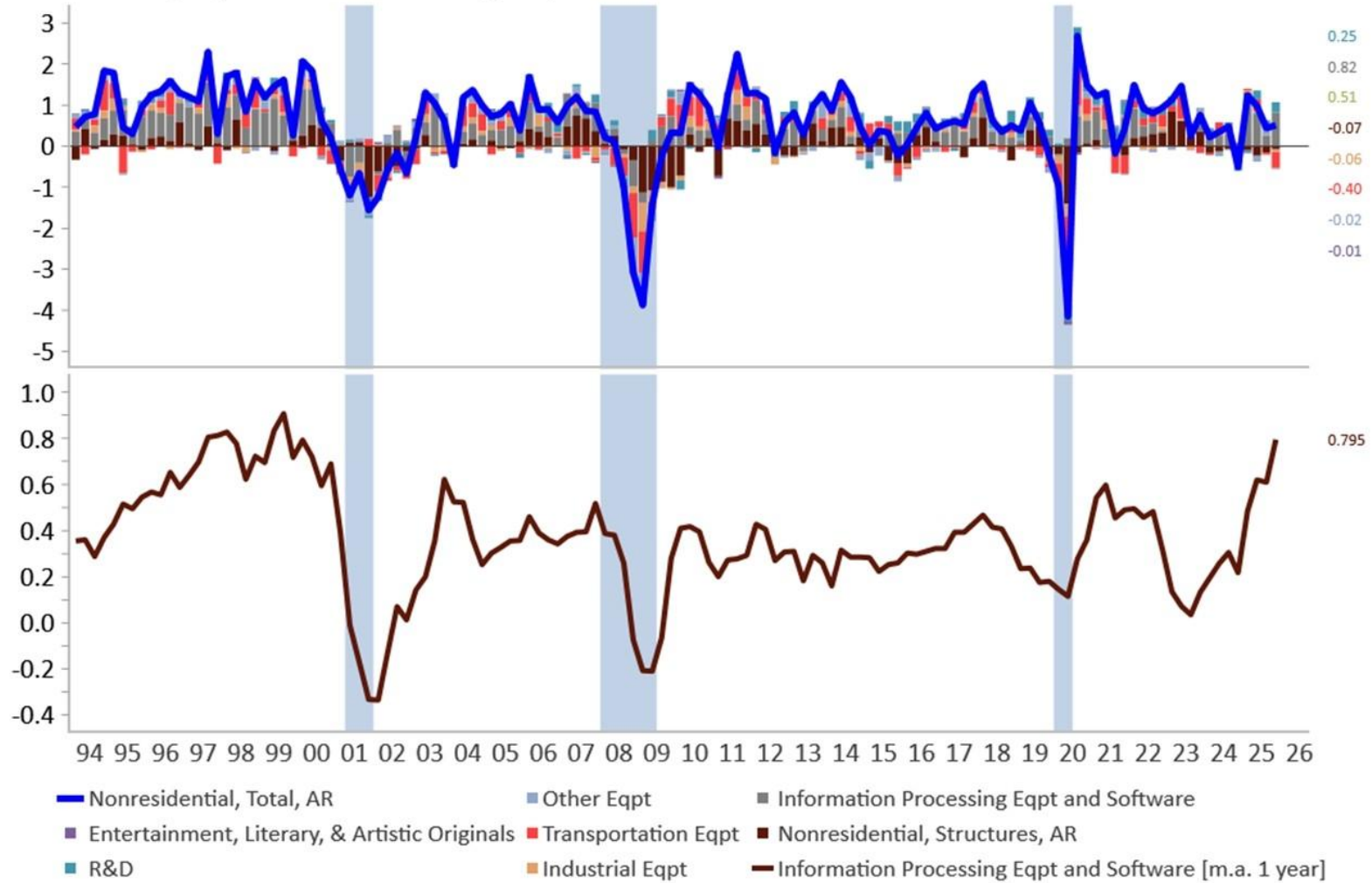
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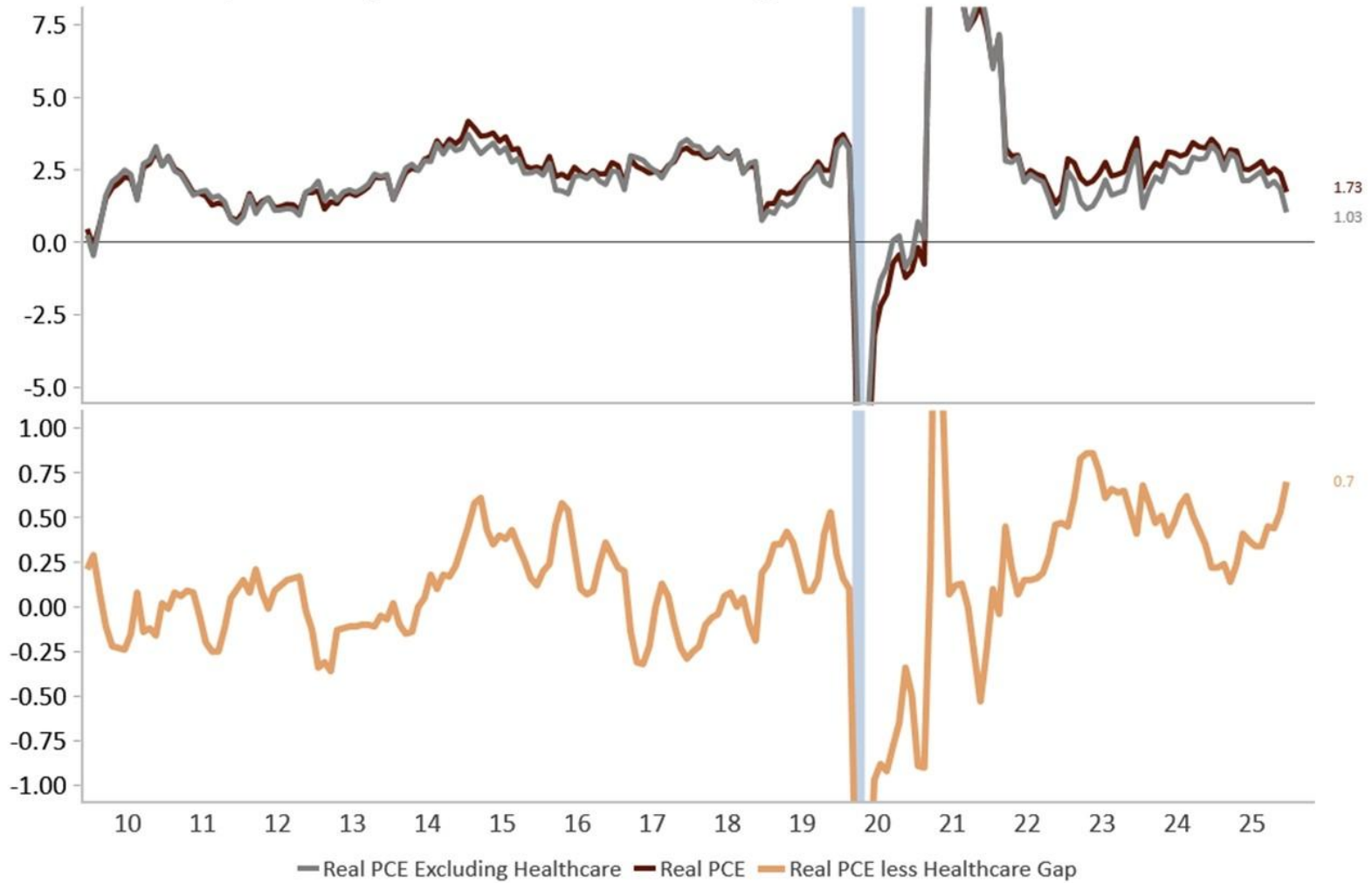
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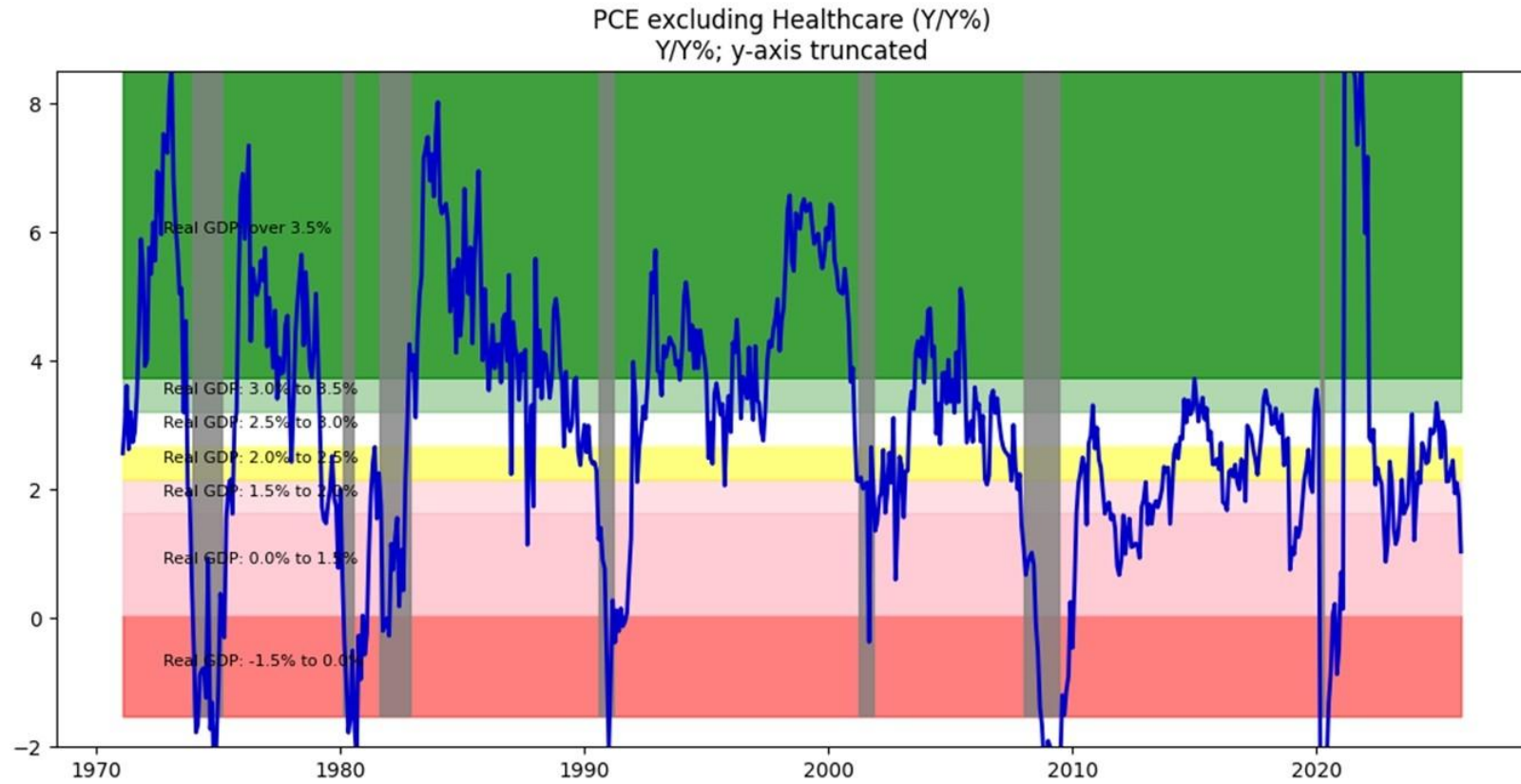


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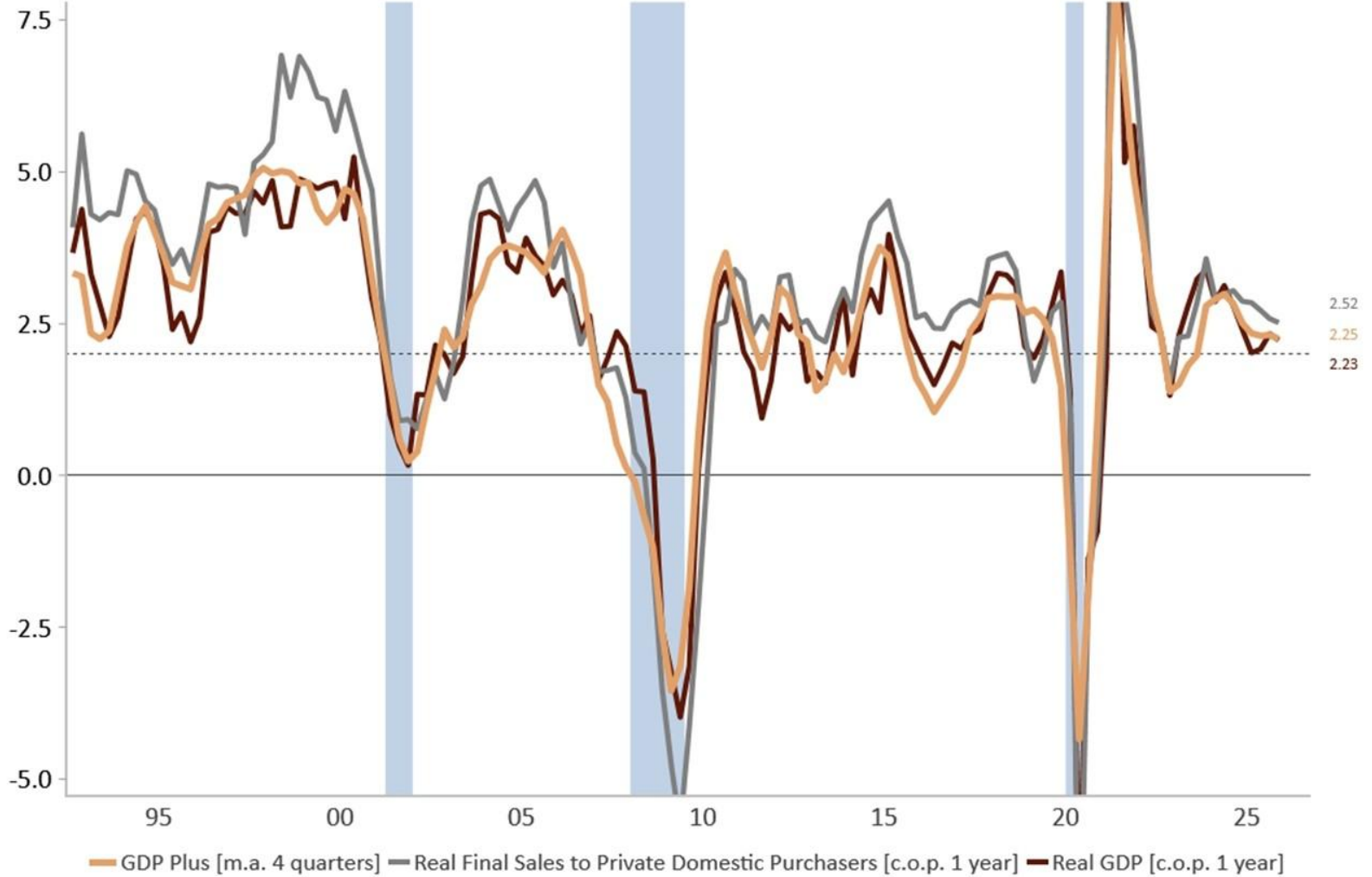


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