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MARKET
SIGHT LINES

Animal Spirits Are in Focus: A Look at Some Soft and Hard Data

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We've spent the last number of weeks discussing various potential economic and market scenarios for this year, including the concept of Animal Spirits, or the emotions and instincts that drive economic growth and market behavior. Lately there is an increasing risk that the Animal Spirits of consumers and business leaders may be weakening, as they may be increasingly worried about the uncertainty of things like tariffs and government layoffs. In this week's Sight|Lines, we review some "soft" and "hard" economic and market data to better understand how things are unfolding.

THE TAKEAWAY: THE "HARD" DATA REFLECTS CONTINUED STRENGTH, BUT "SOFT" DATA SIGNALS A POSSIBLE SLOWDOWN

As we monitor the impact of policy changes in Washington, it is helpful to look at both "soft" economic data, which reflects sentiment and expectations, as well as "hard" data, which measures actual economic outcomes. In summary:

- The consumer continues to benefit from a solid labor market, including increasing wages, and this is contributing to solid retail sales over the last year.
- Consumer survey data is weakening, but some data remains positive and other data negative as it relates to an assessment of the overall environment.
- Business activity remains positive, with profits and earnings growth remaining solid and industrial production growing, year over year.
- Business survey data is showing business sentiment is softening, but still positive.
- Consensus forecasts for the economy remain positive, although we expect some softening.
- Consensus forecasts for earnings growth and future stock market levels also remain positive, but we are anticipating a softening in this data as well.
- Stock market performance is often one of the more important leading economic indicators, and recent market weakness may well be reflecting investors' worry about a potential recession and more precipitous decline in company profits and earnings.

While there has been increased uncertainty around tariffs and government layoffs, so far the data is showing worries about a pending recession may be overdone.

IN-DEPTH: "HARD" ECONOMIC DATA IS REFLECTING STRONG FUNDAMENTALS, BUT SOME "SOFT" ECONOMIC DATA IS SIGNALING WORRIES OF A SLOWDOWN

As we look to gauge the impact of Washington policy changes, some "soft" economic data, which reflects sentiment and expectations, is signaling a possible slowdown, even as "hard" data, which measures actual economic outcomes, is still showing strong fundamentals. Going deeper:

- The labor market and consumer activity remain strong:
  - Unemployment sits at 4.1%, with initial jobless claims and nonfarm payrolls holding steady.
  - Retail sales were up 4.2% over the year ended January.
- Consumer survey data is weakening, but mixed:
  - The Conference Board Consumer Confidence Index declined in February (98.3) but remains positive.
  - The University of Michigan Consumer Sentiment Index also declined (64.7), but in this case to more negative levels on worries about tariffs and inflation.
- Business activity remains positive:
  - In 2024, S&P 500 revenue rose 5.1%, and earnings growth is estimated to have been 10.6%.
  - Industrial production rose 2% during the year ended January.
- Business survey data is showing business sentiment is softening, but still positive:
  - The Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI) fell to 50.3 in February.
  - The ISM Services PMI rose to 53.5, showing both readings signaling expansion.
  - The Conference Board CEO Confidence Survey rose to 60, the highest level in three years.
  - The National Federation of Independent Business Small Business Optimism Index fell to 100.7, also softening, but modestly positive.
- Consensus forecasts for the economy and stock market remain positive:
  - The consensus GDP 2025 growth forecast sits at 2.3%.
  - Consensus earnings growth remains healthy at 11.3%.
  - The average year-end S&P 500 forecast is 6,501, reflecting a 17% return from current levels.
- Stock market performance is often seen as an important leading economic indicator:
  - The S&P 500 has declined 9.0% from its highs in February and is down 5.0% year to date.
  - Recent market weakness seems to reflect investors' worries about a potential recession and a related decline in company profits and earnings, but for the moment, this may be overdone.

CONCLUSION

Over recent weeks we've discussed various potential economic and market scenarios for this year: positive, neutral, and negative. We've often referred to how Animal Spirits, or the emotions and instincts that drive economic growth and market behavior, play a role. Some "soft" economic data is signaling an increasing risk that the Animal Spirits of consumers and business leaders may be weakening, but "hard" economic data still reflects strength. Since "soft" data results are sometimes a precursor to "hard" data results, a careful monitoring of the environment is warranted, and we will share updates regularly.

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Figure 1. Hard vs. Soft Economic & Market Indicators

Category	Indicator/Measure
SOFT DATA *reflects sentiment and expectations*	ISM Manufacturing PMI
	ISM Services PMI
	NFIB Business Optimism Index
	Conference Board Consumer Confidence Index
	University of Michigan Consumer Sentiment Index
	Conference Board CEO Confidence Index
	Consensus Forecasts for GDP & Company Earnings
HARD DATA *measures actual economic outcomes*	Unemployment Rate
	Retail Sales
	Industrial Production
	S&P 500 Revenue & Earnings Results

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