



The technical definition of productivity is a measure of efficiency, comparing the amount of input used to produce a given amount of output. In today's world, everybody is in search of a productivity "hack" and ways to "do more with less."

In some ways, look no further than the U.S. economy. The U.S. economy continues to produce above-average growth on a real basis, and is doing it with fewer new workers (see the chart of the week below).

Despite a disappointing GDP report for the 4th quarter (1.4% vs. estimates of 2.8%), the core components of GDP (personal spending and business investment) remained strong. The lower-than-expected consensus report was more due to a decrease in government purchases and a decline in housing activity.

Maybe more critical last week was the GDP Price Index (a measure of inflation) as well as the PCE. Both measures were above expectations, giving a mixed signal to the Federal Reserve regarding the current state of inflation.

With Fed officials pointing to a stabilization in the labor market, the current trend in non-farm payrolls creates a fuzzier picture of labor, especially when considering the recent pickup in layoff announcements. Last week's decision from the Supreme Court regarding tariffs only adds to the lack of clarity on inflation. Near-term reactions indicate an easing of tariff-related inflationary pressure, but there is a high probability that the administration will use other legislative means to impose some type of tariff going forward.

The path of policy remains critical to the cyclical rotation being seen in the markets right now in the face of increasing capital expenditure levels from AI companies. Investors are taking profits in AI and rotating into more attractively valued cyclicals in anticipation of continued strong growth and a backdrop of supportive policy.

With a light economic calendar this week, the main attraction will be Nvidia's earnings report after the close on Wednesday. Investors will get the latest state of the AI landscape and spending plans from the AI chip bellwether.

U.S. Economic Growth & Labor Market Divergence

[DOWNLOAD THE CHART](#)

What Happened

U.S. Tariffs - The U.S. Supreme Court ruled that executive authority was breached in imposing certain tariffs.

U.S. GDP - Q4 GDP in the U.S. came in at 1.4% vs. estimates of 2.8% quarter-over-quarter.

U.S. Inflation - The U.S. Core PCE for December came in at 0.4% on a month-over-month basis vs. estimates of 0.3%, while headline PCE on a year-over-year basis came in at 2.9% vs. estimates of 2.8%.



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