



## The Daily Dish

# Are Soft Data Signaling a Hard Landing?

FRED ASHTON | APRIL 3, 2025

When the Federal Reserve began its inflation-fighting campaign in March 2022, the worry was whether it could successfully engineer a soft landing. In other words, could the Fed manage to bring down multi-decade high inflation without triggering a recession?

The economic data show that the Fed has largely been successful. Inflation is down - although stubbornly stalled above the 2-percent target - the labor market continues to add jobs at a solid pace, and the unemployment rate remains low. The rest of the macro data shows an economy that is slowing, but there are few signs of impending doom. So far, so good.

But the last mile is always the toughest.

Policy uncertainty out of Washington is putting this last mile on a steep incline. Tariff and trade uncertainty, which was hardly clarified following President Trump's "Liberation Day" announcement, has surely raised recession risks and could turn what appeared to be a soft landing into a hard one.

The uncertainty has caused soft data - surveys of consumer and business sentiment - to deteriorate in recent months. In March, the University of Michigan's Index of Consumer Sentiment fell for a third straight month while the expectations index has retreated 30 percent from November 2024. The survey also showed that two-thirds of consumers expect the unemployment rate to rise in the year ahead, the highest reading since 2009. The mood among consumers has certainly soured.

But it isn't just consumers. Businesses are similarly worried. The Chicago Fed's Survey of Economic Conditions showed a pullback in capital investment and hiring plans for the next 12 months. The Richmond Fed's CFO Survey was no better. Nearly 25 percent planned to

decrease hiring and capital spending over the next year. Why? Tariff and trade policy. A survey of small businesses from the National Federation of Independent Business showed a net 15 percent of small business owners planned to create new jobs in the next three months, down 3 points from January.

To be clear, sentiment indicators do not always translate to hard economic data. But prolonged uncertainty could cause consumers and businesses alike to pull back spending plans. Moreover, price spikes associated with tariffs could reignite the very inflation fears the Fed has tried to snuff out. The Fed will be watching closely to see if its “wait-and-see” approach is still appropriate or if an insurance cut is warranted to guard against an economic downturn.

## **FREDDY’S FORECAST: MARCH JOBS**

The February jobs report showed employers added 151,000 workers to the payroll while the unemployment rate inched up to 4.1 percent. Slight downward revisions were made to the prior months. Average hourly earnings slowed to 0.3 percent for the month, an annual increase of 4.0 percent.

Since the last report, data from ADP showed that private-sector employment rebounded in March, adding 155,000 jobs, up from 84,000 in the prior month. The goods-producing sector added 24,000 led by a strong performance from the manufacturing sector, which gained 21,000 jobs. Service-providing industries added 132,000 jobs. Small, medium, and large-sized businesses all showed job growth.

LTS data showed February job openings slipped 200,000 jobs to 7.57 million but have remained relatively flat since April 2024. Layoffs ticked up to 1.79 million from 1.67 million in January.

The Challenger Report showed that job cuts increased 60 percent from the prior month to 275,240 in March. According to the report, the “job cut announcements were dominated last month by Department of Government Efficiency [DOGE] plans to eliminate positions in the federal government.” Over the past two months, “DOGE actions have been attributed to 280,253 layoff plans of federal workers and contractors.”

The Institute for Supply Management showed a significant decline in service-sector employment. The index fell into contraction territory for the first time in six months. The manufacturing sector employment index fell deeper into contraction.

Negative business sentiment, federal layoffs, and the cascading effects of government clawbacks could weigh on the topline payroll number. Expect topline payroll growth of 105,000. The unemployment rate is likely to tick up to 4.3 percent while growth in average hourly earnings slows to 0.3 percent, or 10 cents.