

## Mixed Signals

If you're reading tea leaves about the future of the U.S. economy, and whether the U.S. Fed will raise or lower interest rates, the most readable fronds are the monthly unemployment rate statistics.

Usually. In the case of the newly released December numbers, the U.S. economy added just 50,000 jobs in the last month of the year, according to the Bureau of Labor Statistics. But at the same time, the Bureau calculated the unemployment rate to be 4.4%, down from 4.5% in November.

Now that the data from 2025 is in the books, last year's job growth was the weakest since 2003, with just 584,000 jobs added. To put that in perspective, an estimated 3.9 million Americans reached age 18—the age when many Americans look for full-time employment—at some point in calendar 2025. Meanwhile, wages (adjusted for inflation) have been flat in recent months.

Economists have tried to explain the contradiction of fewer jobs added with fewer people looking for work by pointing out that the Trump Administration's immigration policy has slowed the supply of new workers into the economy. They also point to the impact of higher tariffs, which has left employers reluctant to expand their workforces. The result has been dubbed a 'low fire, low hire' staffing dynamic.

But there's another interesting dynamic going on that seems to be underreported in the press. According to the Bureau of Labor Statistics, the labor participation rate—the percentage of Americans actually looking for jobs—never fully recovered from the Covid pandemic. Just over 62% of Americans seem to want jobs, down from more than 66% in 2006.

So, what are all these tea leaves telling us? If overall unemployment remains low, then the Federal Reserve might not worry about the health of the economy and be inclined to fight the persistently stubborn inflation rate—which means keeping interest rates where they are. That's the short-term view. But if hiring remains stalled, and wages are stuck in the mud, that could eventually trickle down to the growth of the economy, leading to fewer retail sales—the main driver of economic growth.

It's a muddled picture, for sure. But if you've ever tried to make sense out of the contents of your morning teacup, or gazed into the distortions of a crystal ball, you know that the future isn't easily predicted. The only advice that has reliably worked over market history is to stop trying and harvest the fruits of hundreds of millions of workers going to work every day to make the companies they work for incrementally more valuable.

Sources:

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