US Daily: What Should We Make of Solid GDP Growth but Weak Job Gains? (Abecasis)

- We estimate that job growth has slowed to about 40k jobs/month on average this year and 25k jobs/month over the last three months, below our estimate of the breakeven pace needed to stabilize the unemployment rate. At the same time, we estimate that GDP has grown about 2.2% annualized so far this year and 3.3% in Q3. In today's *US Daily*, we explore the recent gap between the activity and labor market data.
- There are a few special factors complicating the relationship between GDP growth and job gains in the official data, including swings in imports and the coming downward revisions to payrolls. Looking through these effects, we estimate that the gap between underlying GDP and payroll growth averaged about 1.5pp in 2025Q1-Q3—close to the average pace of economywide productivity growth since 2019—and stood at about 2pp in Q3.
- The gap between GDP and job growth is not historically unusual in the real-time data, either from the start of the year or in Q3, but it was less common last cycle when productivity growth was weaker. We find that labor market indicators are more reliable predictors of recession risk and future activity than activity indicators, which suggests we should take the recent labor market weakness beyond the slowdown in labor supply seriously, even though the latest GDP numbers look better.
- Looking ahead, we expect GDP to grow by about 1.3% in Q4, reflecting drags from the federal government shutdown, slowing job gains, and elevated inflation partly offset by a boost from a narrower trade deficit. We expect payroll growth to remain weak in Q4, reflecting drags from the federal government shutdown and deferred resignation program alongside sluggish labor demand. We expect both GDP and payroll growth to pick up moderately in 2026 as the tariff drag abates, fiscal policy turns more expansionary, and financial conditions remain easy.

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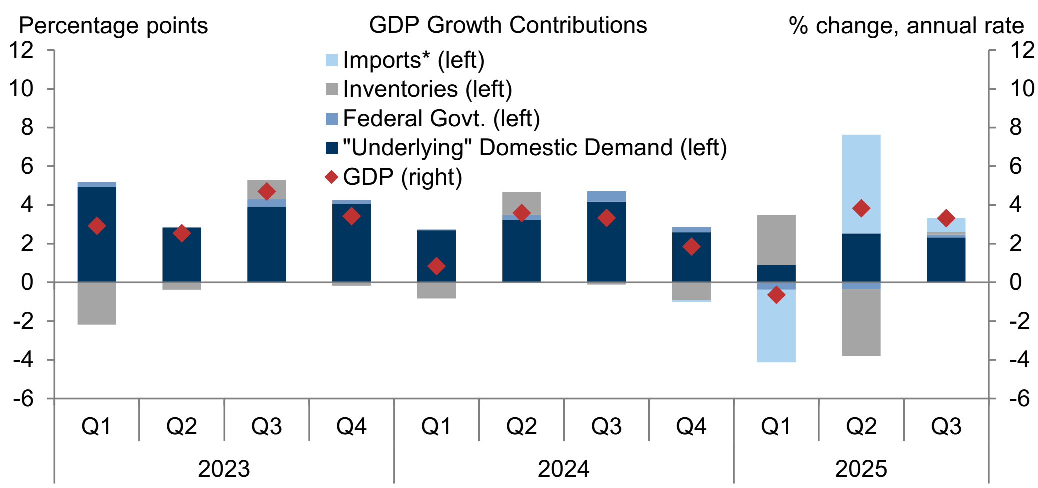
What Should We Make of Solid GDP Growth but Weak Job Gains?

We estimate that job growth has slowed to about 40k jobs/month on average this year and 25k jobs/month over the last three months, below our estimate of the breakeven pace needed to stabilize the unemployment rate. At the same time, we estimate that GDP has grown about 2.2% annualized so far this year. We are now tracking Q3 GDP at 3.3% annualized, partially reflecting a stronger contribution from the federal government than we had previously assumed. In today's *US Daily*, we explore the recent gap between the activity and labor market data.

There are a few unusual factors clouding the relationship between GDP growth and job gains in the official data. Swings in imports should have a neutral first-order effect on GDP—which measures US domestic production—but this year's pre-tariff import surge and subsequent decline were only partially offset by inventories and domestic demand, likely as a result of measurement problems. In addition, larger-than-usual federal government spending cuts and layoffs also complicate comparisons with history because the productivity level and growth rates of federal government workers are different from the private sector. Differences in when these cuts appear in the GDP and payrolls data also complicate comparisons between the two, especially on a quarterly basis.

In Exhibit 1, we break down the Bureau of Economic Analysis (BEA)'s current estimates of GDP into the contributions from these special factors plus our estimate of underlying domestic demand (the dark blue bars). We estimate that the pace of underlying domestic demand has been around 1.9% annualized this year.

Exhibit 1: Recent GDP Readings Have Been Noisy Because of Swings in Trade and Inventories; We Estimate That Underlying Domestic Demand Has Grown at a Roughly 1.9% Annualized Pace This Year



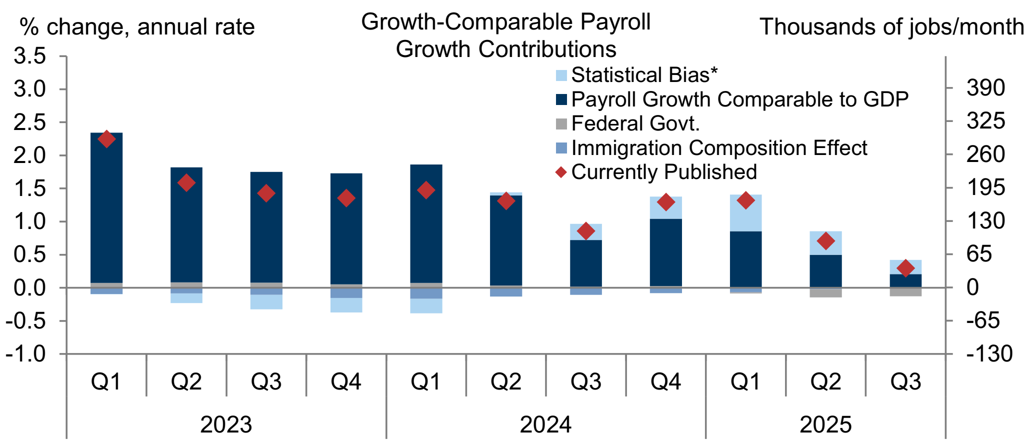
Note: Q3 reading is based on GS GDP tracking estimate. * Import contribution (including imports imputed to capex) in 2025.

Source: Goldman Sachs Global Investment Research, Department of Commerce

On the payrolls side, we see three factors complicating comparisons between currently-published payroll growth and GDP growth. First, the coming benchmark revisions to payroll growth and likely overstatement of the contribution of business formation are inflating the payroll growth figures. Second, recent immigrants probably contribute more to job growth than to GDP growth because they tend to work in less productive industries and earn wages below the population average. Third, the large reduction in federal government workers will probably weigh on payroll growth more than on GDP growth.

Exhibit 2 breaks down the recent payrolls data into these special factors plus a component that we would expect to track GDP growth more closely (the dark blue bars). We estimate that the pace of payroll growth has slowed to around 0.4% on average this year.

Exhibit 2: Payroll Growth Has Slowed Significantly This Year

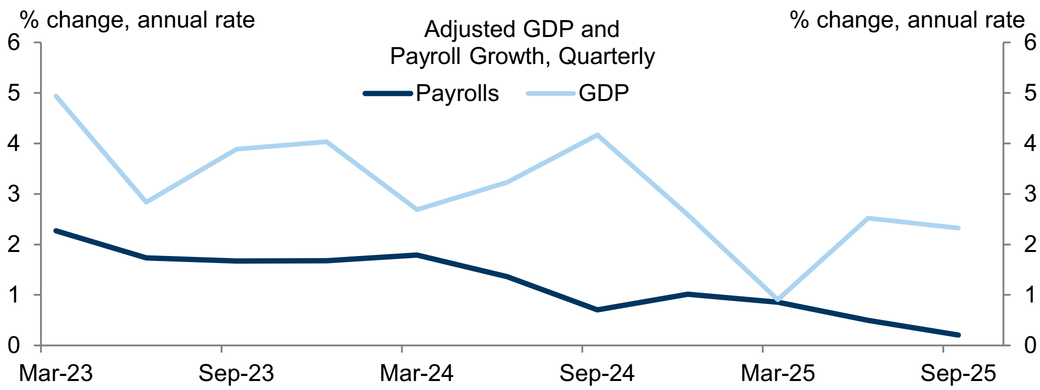


Note: Q3 reading is based on GS forecast for September payrolls.
* Includes the effect of the QCEW benchmark revisions to payroll growth net of our estimates of unauthorized immigrants excluded from the QCEW, plus our estimate of the birth-death model overstatement in 2025Q2 and Q3.

Source: Goldman Sachs Global Investment Research, Department of Labor

Putting our two adjusted series together, we estimate that the gap between GDP and payroll growth has averaged about 1.5pp since the start of the year—close to the average pace of economywide labor productivity growth of 1.6% since 2019—and stands at about 2pp in Q3. The raw gap is larger for Q3 because we estimate that the pullback in imports will boost GDP growth by about 0.7pp, that federal government spending will add another 0.1pp but will weigh on payroll growth by 0.1pp, and that inventories will boost GDP growth by another 0.1pp.

Exhibit 3: After Adjusting for Distortions and One-Off Factors, the Gap Between GDP and Payroll Growth This Year Has Been Roughly in Line with Productivity Growth This Cycle



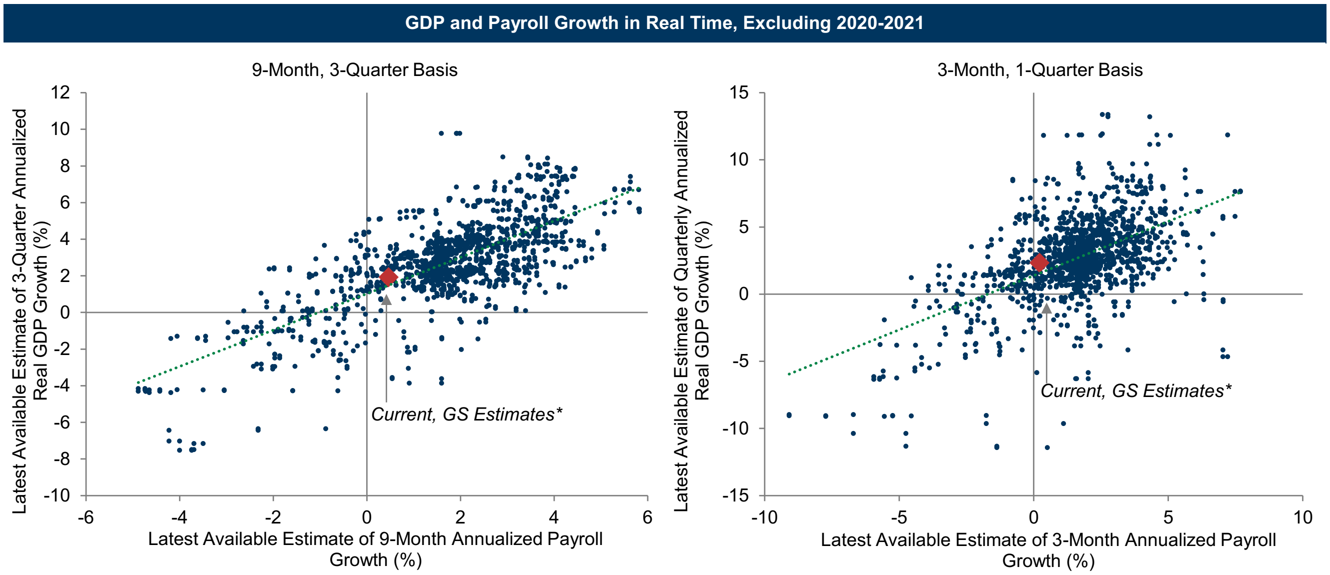
Note: Payroll growth adjusted for preliminary benchmark revisions based on QCEW data, our estimates of the exclusion of unauthorized immigrants from the QCEW and likely upward revisions to QCEW, and excluding the decline in federal government employment. We also adjust payroll growth by our estimate of the gap between earnings for recent immigrants and the overall population. GDP growth adjusted to remove the contributions from net trade, imputed imports added to domestic demand, inventories, and federal government spending. Q3 is based on GS GDP tracking estimate and September payrolls forecast.

Source: Goldman Sachs Global Investment Research, Department of Commerce, Department of Labor

Exhibit 4 puts the current gap between GDP and payroll growth with our adjustments in historical context. It shows the latest real-time estimates of GDP and payroll growth each time that new estimates of each indicator have been released. The red diamonds mark the current estimates of GDP and payroll growth after adjusting for the special factors we discussed above.

As the exhibit shows, the current gap between GDP and payroll growth is in line with the typical historical relationship, both from the start of the year (left side of Exhibit 4) and in Q3 (right side of Exhibit 4). The specific combination of near-zero job gains and still-positive growth is a bit more unusual. But the current configuration mostly reflects a slowdown in labor force growth as a result of lower immigration and population aging and is likely to be fairly normal in the years ahead.

Exhibit 4: The Current Gap Between GDP and Payroll Growth Is Not Historically Unusual



Note: We show real-time estimates of Gross National Product (GNP) growth before November 1991, when estimates of GDP growth became available.
* Payroll growth adjusted for preliminary benchmark revisions based on QCEW data, our estimates of the exclusion of unauthorized immigrants from the QCEW and likely upward revisions to QCEW, and excluding the decline in federal government employment. We also adjust payroll growth by our estimate of the gap between earnings for recent immigrants and the overall population. GDP growth adjusted to remove the contributions from imports, inventories, and federal government spending.

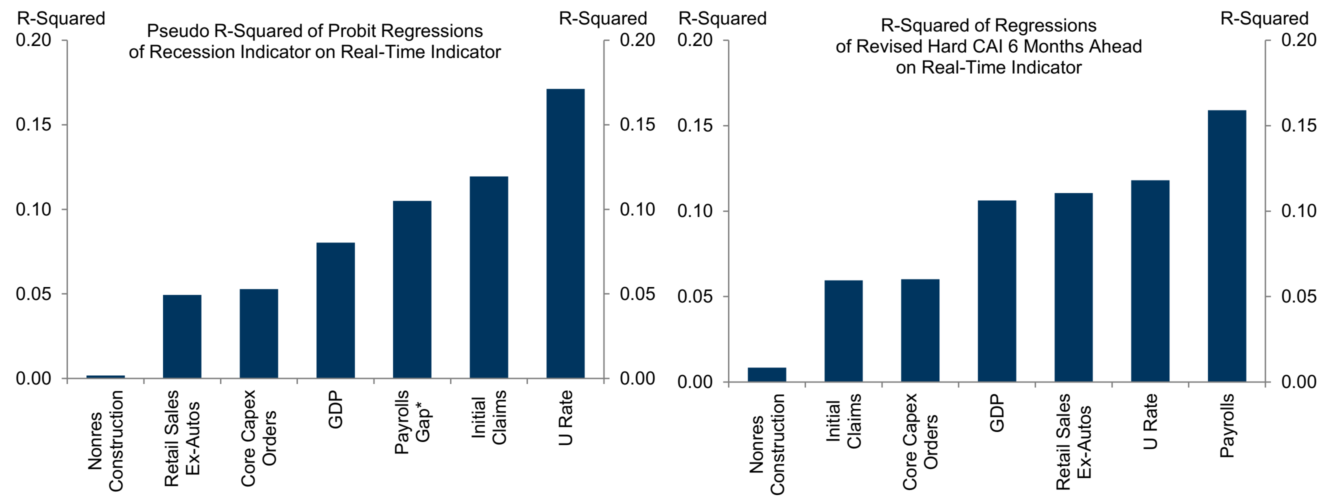
Source: Goldman Sachs Global Investment Research, Department of Labor, Department of Commerce

The average pace of GDP growth this year through Q3 has been about 0.3pp below our estimate of potential growth of roughly 2.2%.[1] The average pace of payroll growth over the same period has been about 0.2pp below our estimate of the breakeven pace of job growth. In Q3, our adjusted GDP growth measure is about 0.1pp above potential, while payroll growth is about 0.3pp below potential.

From a forecasting perspective, we find that labor market indicators are generally more reliable predictors of future activity growth and recession risk in real time than activity indicators (Exhibit 5). This suggests that we should take the recent labor market weakness beyond the slowdown in labor supply seriously, even though the latest GDP numbers look better.

[1] We estimate that potential growth in 2025 on average is a bit higher than our 2.1% estimate for 2025-2029 because we estimate that labor supply growth was stronger in early 2025 than it will be through 2029.

Exhibit 5: Labor Market Indicators Are More Accurate Predictors of Recession and Future Growth in Real Time Than the Activity Data Because They Are Timelier and Less Noisy



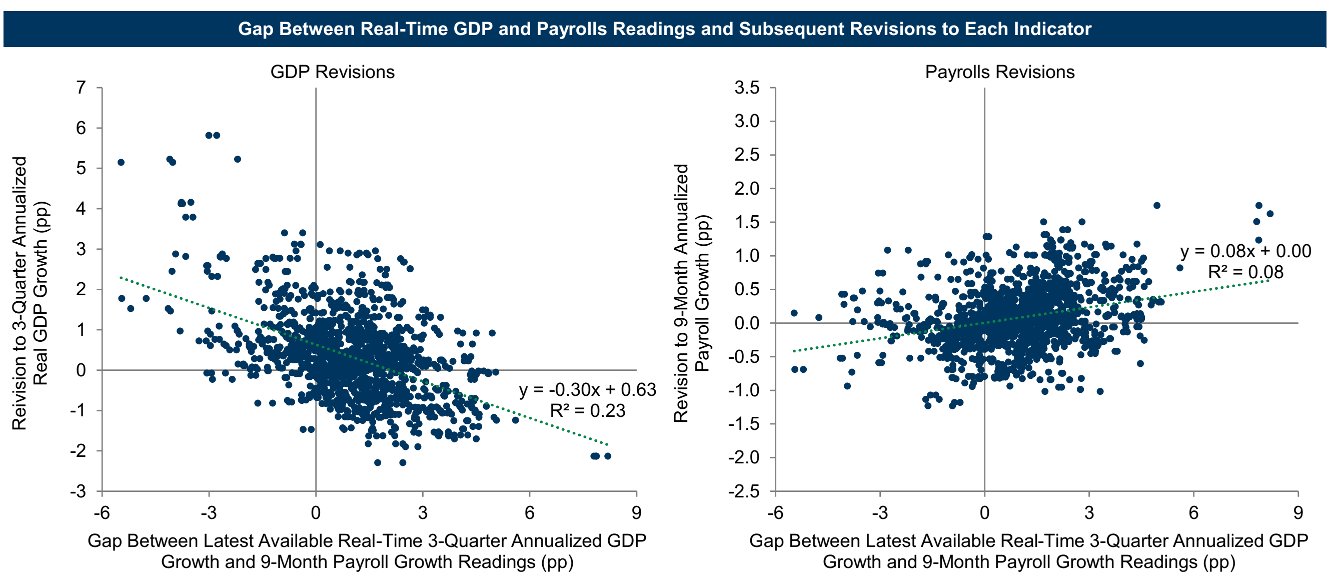
* Gap between payroll growth and potential labor force growth.

Note: we choose the transformation (e.g. 3m, 6m percent change) that maximizes the R-squared value for each indicator to give it the best chance of predicting growth and recession risk.

Source: Goldman Sachs Global Investment Research

The same pattern applies to revisions. Exhibit 6 shows that a larger gap between GDP and payroll growth is associated with larger revisions to GDP growth than revisions to payroll growth.

Exhibit 6: When There Is a Gap Between GDP and Payroll Growth, GDP Tends to Be Revised Towards Payrolls More Than the Other Way Around



Note: We show real-time estimates of Gross National Product (GNP) growth before November 1991, when estimates of GDP growth became available.

Source: Goldman Sachs Global Investment Research, Department of Labor, Department of Commerce

Taken together, our results suggest that the current gap between GDP and payrolls is not historically unusual. In Q3, we would put more weight on the slowdown in job growth below the breakeven rate than on the reacceleration in headline GDP growth because 1) the labor market data are generally more reliable in real time and 2) much of the GDP strength is due to a boost from net trade in an unusually noisy, trade-war affected environment.

Looking ahead, we expect GDP to grow by about 1.3% in Q4, reflecting drags from the federal government shutdown, slowing job gains, and elevated inflation but a boost from a narrower trade deficit. We also expect payroll growth to be soft in Q4, reflecting drags from the federal government shutdown and deferred resignation program and subdued labor demand. After that, we expect underlying growth to pick up moderately in 2026 as the drag from tariffs abates, fiscal policy turns more expansionary, and financial conditions remain easy.

Manuel Abecasis

Disclosure Appendix

Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Ronnie Walker, Manuel Abecasis, Elsie Peng, Pierfrancesco Mei and Jessica Rindels, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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