MORE Q4 2025 US ECONOMIC DATA AND COMMENTARY.

I consider MishTalk to be one of the better analysts of US payroll data and a worthy BLS sceptic. This graph is taken from his analysis of the unbelievable BLS January job data report showing a rise in jobs equal to half of the entire number of jobs added in 2025 (most of it in health and education). "*For the full year in 2025, the economy only added 229,000 jobs. From July through December, the economy lost 45,000 jobs.*" What job growth there was petered out in April. It seems that Trump's rose garden event which tarrified the world economy had a negative effect within the USA. It flattened the labour market an event not identified by the mainstream media more pre-occupied with propping up the share market.

Graph 1.
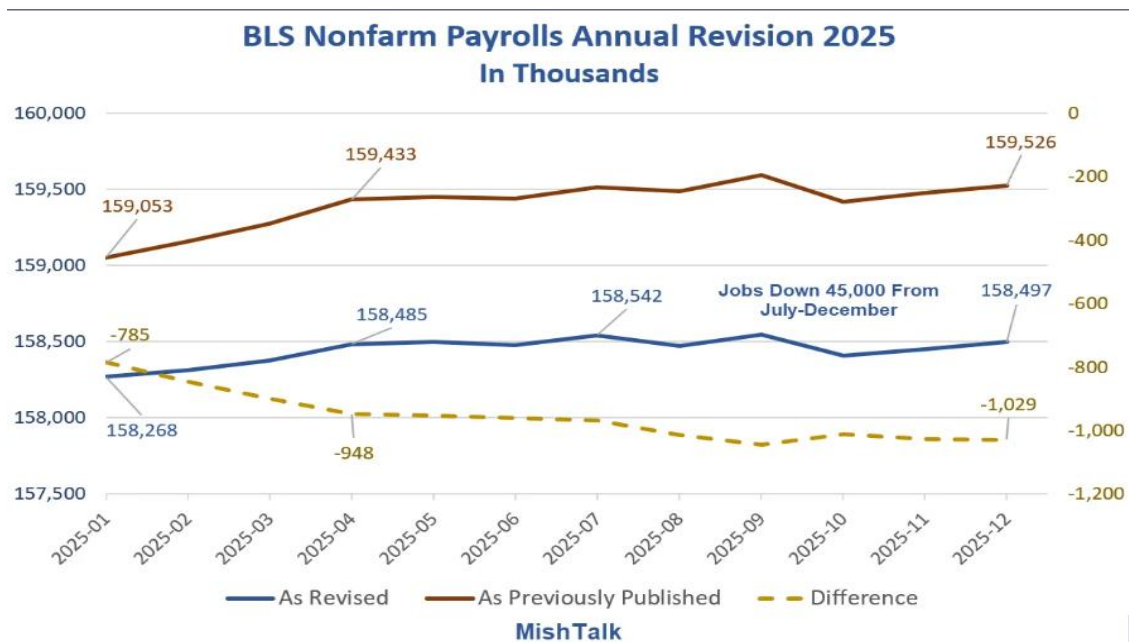
The only authentic graph I could find reflecting the reality of the working week, one which represents the mix of full time and part time work, is the length of the average working week. It shows how fragile employment is currently. A fall in weekly hours is always a prelude to a fall in job hiring.

Graph 2.
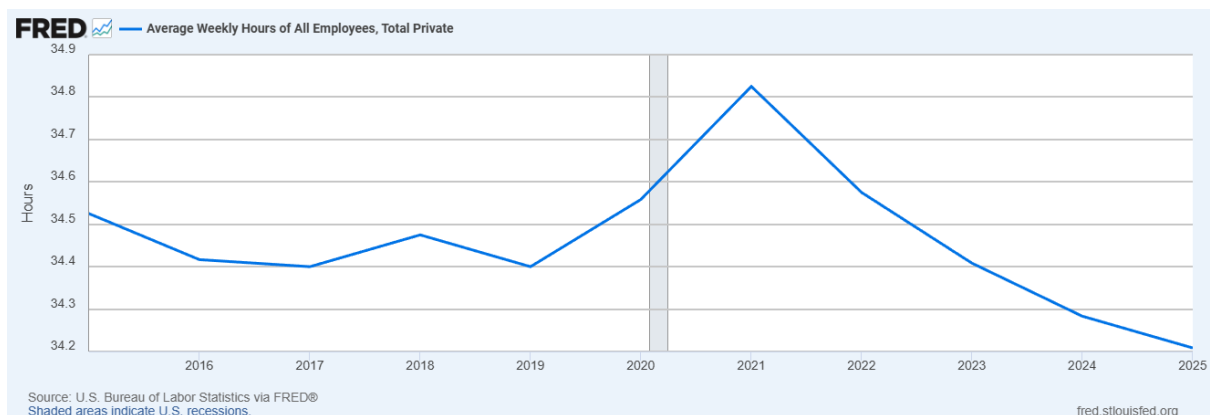
These revisions to job numbers are confirmed by withheld and payroll taxes. The latest Congressional Budget Office report shows that taxes on employment rose by under 4% for the period September 2025 to January 2026 aka the current fiscal year which runs from October to the following September each year. Wages and salaries over the course of 2025 rose by 3.4% yielding a positive difference of around 0.5%. That bears little relation to the aggregate number of hours worked which officially rose by 1.2%, but it is associated with the downward revision in the number of jobs as shown in Graph 1.

The stagnant jobs market is mimicked by a stagnant retail sector. In December, contrary to expectations of a 0.4% rise in m.o.m nominal retail sales, there was zero growth. Over the last 16 months there has been no growth in the volume of sales adjusted for inflation. And this despite the booming stock market increasing the consumption of the top 10% of income earners responsible for half of all sales.

Graph 3.

ANNUALISED RETAIL SALES ADJUSTED BY RPI up to Dec 2025
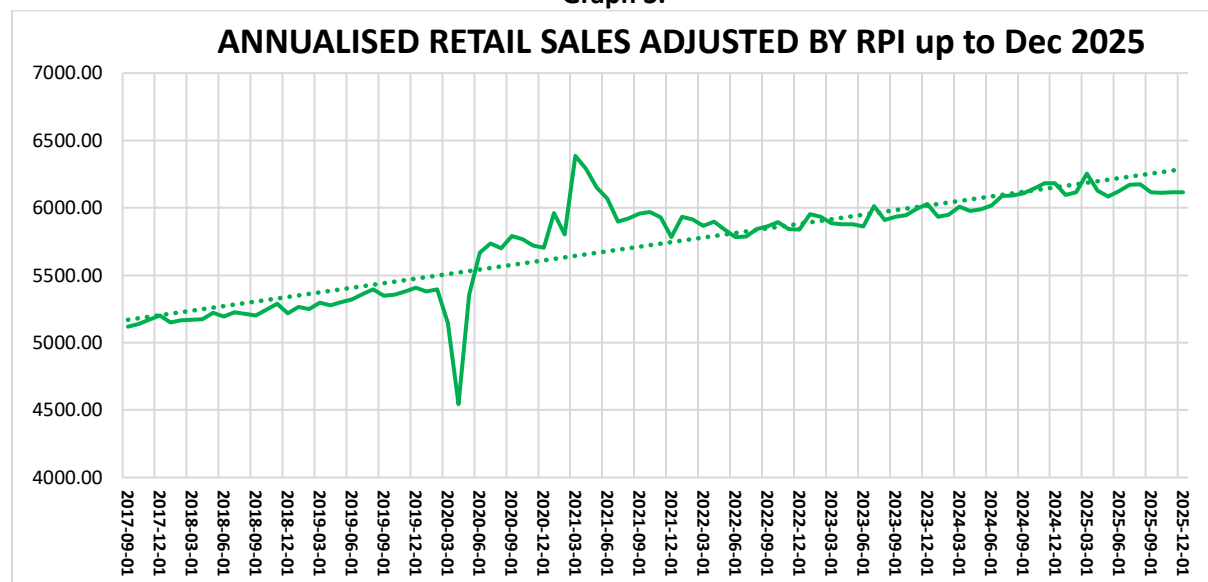
Retail sales have been adjusted by the Goods RPI. Comparing December 2025 to December 2024, the Goods RPI went up 1.5% so little evidence of tariff inflation. Quite the contrary, mass consumer facing companies such as PepsiCo, McDonalds Walgreens and Target are actively cutting prices.

Graph 4.


USA: GOODS RPI up to December 2025
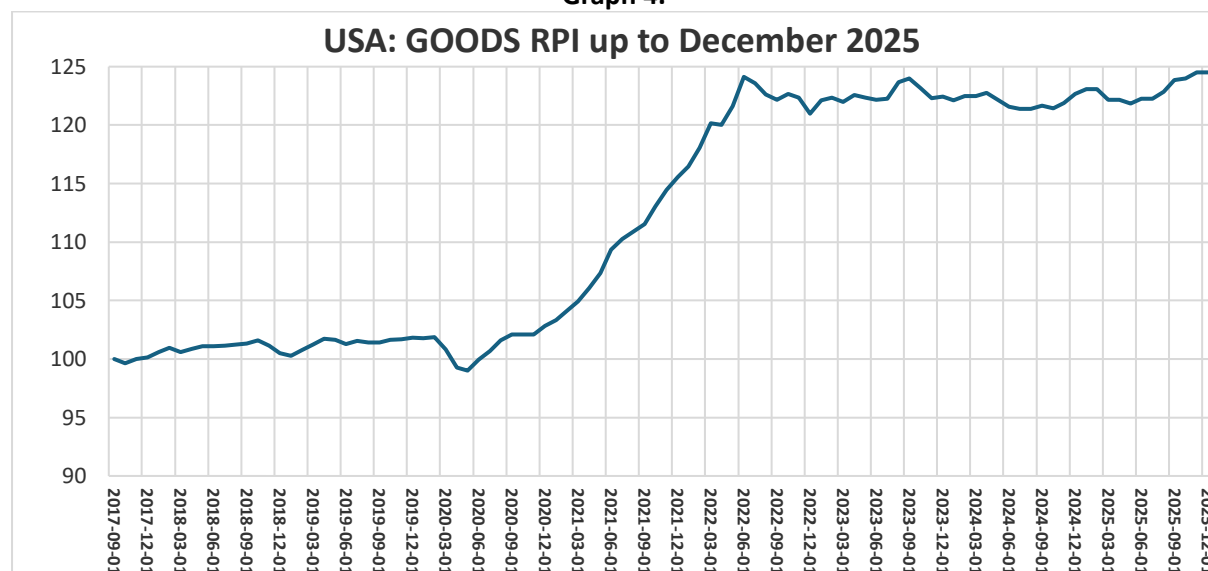
Having analysed many corporate releases covering their fourth quarter earnings together with FactSet's most recent profit analysis, only three sectors are showing robust revenue growth, Information Technology, Aerospace and Big Pharma. All the other sectors are effectively in recession as defined by volume contractions. This figure is verified by the fall in the number of jobs within the freight industry. By January 2026 the number of jobs had fallen by over seven and a half percent from its 2023 peak. And the fall continues. This is not surprising carboard box demand in Q3 of 2025 fell to its lowest level since 2015 with only a moderate improvement in Q4.

Finally, the latest New York Fed household report reveals that mortgage defaults for the first time are rising while a separate report reveals these defaults are rising fastest in regions where unemployment is rising faster. Total delinquencies across all sectors are now approaching Q1 2008 levels.

All in all, this is not a vision of a resilient economy but one slipping sideways into recession, which is why Trump's approval ratings has collapsed dragged down too by the Epstein files yapping at his ankles. The latest poll shows his approval rating at its lowest at -18, with women disapproving more than men.

Graph 5.

Net approval rating, % points

Compared with —— *Trump 2017* —— *Biden 2021*
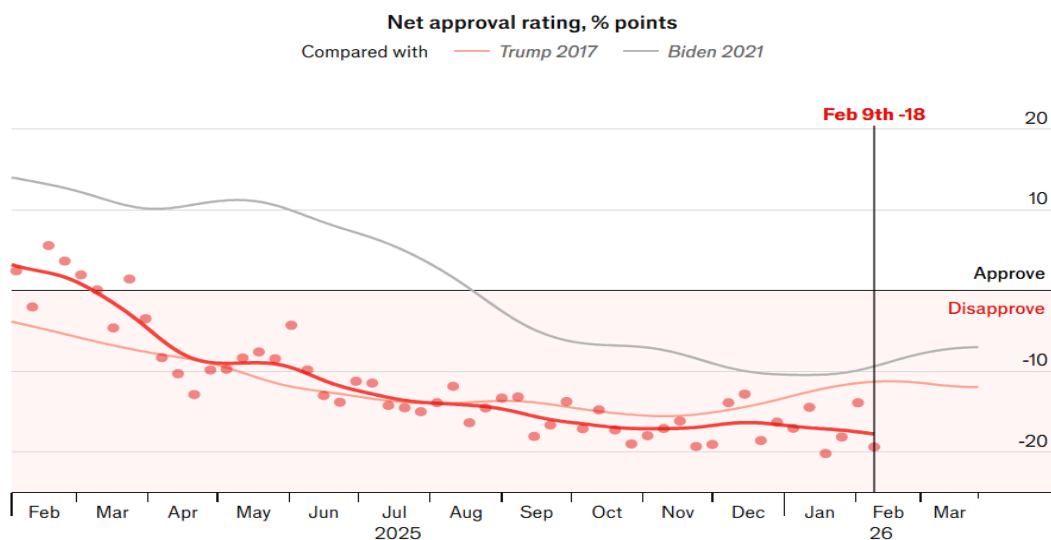
And this is mainly due to his handling of the economy despite his promise to provide tariff cheques, caps on credit card interest payments and preventing big business buying up homes driving up prices.

Graph 6.

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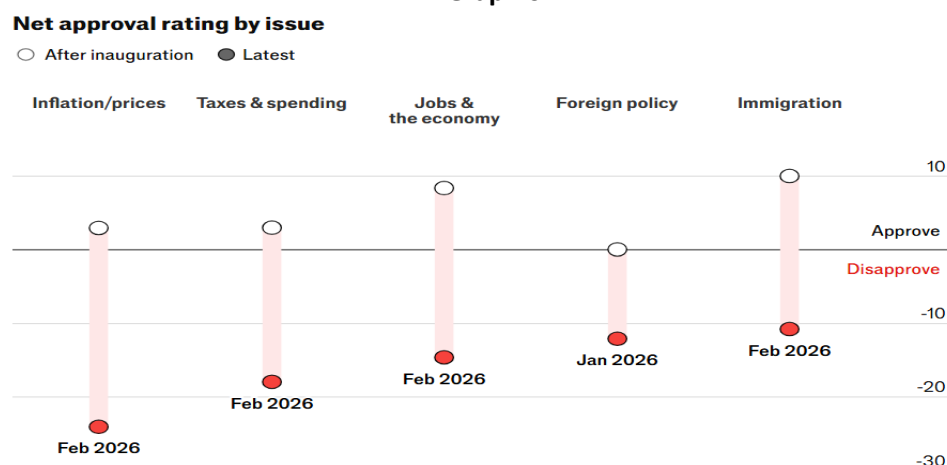
Artificial Intelligence.

In evaluating the prospects for the energy and labour-intensive Large Learning Models or LLMs, mislabelled AI, it is important to distinguish between upstream and downstream firms, as well as whether this technology promises revenue expansions or cost reductions. By upstream we mean the large Big Tech corporations or hyperscalers such as Microsoft, OpenAI, Alphabet and so on. By the downstream industries we refer to the traditional corporations who will use these algorithms to reduce their staffing, particularly white-collar workers. Secondly, whereas the internet and computers created new industries which boosted overall revenues, LLMs are likely to reduce headcounts without revenue enhancements. Thus, on the productivity front, it won't be so much an i**ncrease** in revenue over hours worked which raises productivity, as much as **flat** revenues divided by fewer hours which raises productivity. However, limited revenue growth will also limit the scope for productivity growth weighing on the rosy perspectives of many analysts who expect startling rises in productivity in the years to come from AI. *****

Over time the more astute observers of the AI industry surmised that the big winners of the AI revolution in the end would be downstream corporations. Last week they were proven right with the roll out of [Anthropic's Claude Code](#) launch. Anthropic has focused on enterprise software, whereas the likes of Google and OpenAI have been more consumer orientated. Claude allows several sectors to improve their efficiencies by using proprietary or tailored software based on Claude. The market was not slow to recognise the importance of this new software. Shares in a number of sectors fell sharply, notably Software companies, because Claude raises the prospect of individual companies using Claude in-house rather than using the services of these software companies.

There is a secondary consideration which could undermine the upstream hyperscalers. Training the consumer based LLMs require huge computing power, most of it lodged in the Cloud using data centres. But the more enterprise orientated LLMs such as Claude [can be run in-house with large computers or single servers](#). This has the additional advantage of protecting corporate commercial data as this data is contained within the corporations itself. This threatens the existing US models of mega scalers on which the fortunes of Nvidia et all are based.

In short, Claude is closer to the Chinese model than to the classic over-capitalised US model though not being open sourced. Even the very popular European OpenClaw system, with 700 million users, a hybrid combining an enterprise agent with a personal assistant, erodes the hyperscalers model further. The consequence of these programmes could further erode any optimism that the hyperscalers will ever become profitable by monetising their models. The real money is to be made in the corporate sector where enterprise models will have the advantage. Add in the growing fatigue with the original consumer AI models such as Copilot and CHATGPT and the prospects for the upstream business model dims further.

The stakes could not be higher, and the distance to fall even further. *[UBS estimates](#) that tech and AI-related debt issuance across the globe more than doubled to $710 billion last year and could soar to $990 billion in 2026.* (Most of it in the BLOATED USA.) This huge unsustainable number is about [a third of total Private Non-residential investment](#) adjusting for double counting R&D investments, large enough to impart a sizeable boost to US GDP. Assuming these two years' worth of investments require a rate of return of 10% that would amount to $140 billion in annual profits or nearly half the international profits generated in 2025 by Apple, Alphabet and Microsoft. Impossible.

There is also a [potential black swan](#) emerging, a divorce between Microsoft and OpenAI due the latter haemorrhaging cash which Microsoft no longer feels supportable. The next few weeks will reveal whether this comes to fruition. The collateral damage will be grave as it will upend the roundtripping based around OpenAI which has supported Nvidia's sales.

Finally, one development that seems to be blindsiding Wall Street and that is the technical developments within China itself. It seems that China's prototype EUV Lithography machine has already been debugged accelerating the timeline for introducing [Chinese EUV machines](#). Huawei appears to be contemplating serial production of these machines in 2026, a year earlier than planned, with full operational capacity in 2027. Crucially the cost of chips produced this way will be one third compared to Chips produced on ASML machines. If this is the case the Western Chip industry will go the same way the Western auto industry went, and China will have decoupled completely from Western technology, at which point the AI bubble in the West will be unsupportable.

Geopolitics.

Iran has now overtaken the Ukraine as the most consequential geopolitical fault line. It was always going to be the case, that a war in Ukraine would embroil the US, Europe, Russia and China. And this observation has been underpinned by the USA, China and Russia rushing military assets to the region.

Two weeks ago, Trump announced a series of meetings to discuss peace in Ukraine and the Middle East. This time round, Trump did not use the talks as a cover to induce Iran to lower its guard as it had done in the 12-day war in June last year. The 12-day war in June last year, won by Iran's missile dominance remained fresh in the minds of the Pentagon, and this time round, Iran which had held back in June, announced it would unleash its full arsenal.

In fact, this time round, the offer of negotiations by Trump was designed to be an off-ramp for the USA. Trump's careless and reckless threats emboldened by his Venezuelan success, against an enemy he had underestimated yet again, had led to him being cornered by his own words. Iran was not weaker than in June despite the spurious claims in the western media, it was militarily stronger. And this time Iran invited and called for Russian and Chinese help.

The extent of China and Russia's help is not known but it appears to be substantial. The Russians have provided defensive equipment including electronic warfare, and they have stationed up to 5,000 specialist troops as close to the Iranian borders as its territory to allow it to support of any air war over Iran and to protect Iran's exposed Caspian Sea flank. For the first time [China has provided anti-aircraft missiles](#) with a range of 250 km and a modern radar system reaching out 700 Km. Simultaneously, China has published real-time satellite imagery of US bases in the Middle East, not to prove it can, but to make the point that Chinese eyes are on the US.

On the US side there is also a build-up. It is reported that up to 130 C17 heavy lift aircraft have flown to the region delivering troops and ordnance. Given that each plane can carry 77 tons of cargo, that is up to 10,000 tons of cargo. The last airlift of this scale was during operation Desert Storm against Iraq. There are also [numerous reports of increased military activity](#) at and around US airbases with an emphasis on mobility to avoid incoming missiles.

The mix of US offensive weapons in the region is illuminating. Despite boasting about his armada, his aircraft carrier flotilla headed by the [Abraham Lincoln](#) has been withdrawn to a position over a 1000

Km away in the Indian Ocean. This puts into question the future of Aircraft Carriers against an adversary equipped with modern anti-ship missiles. In its place the US is flying in F35s using land-based runways. No doubt the USAF will exploit Syrian airbases to the full given their proximity to Iran.

The recent US National Security Strategy emphasised the Western Pacific and the South China Sea. It deemphasised the Middle East. That however only applied to the Palestinian question. The gulf region with its maritime hubs and lanes is vital to any war in the South China Sea, because it represents the Western flank. A failure to subdue Iran and Yemen means the Pacific is cut off from the Mediterranean Sea or what is the same thing the Pacific theatre is cut off from European help and all the US bases parked there and in Britain. No general or admiral goes to war unless and until its flanks are secured, and currently they are far from secured.

I believe that if the US is intent on fighting China, war against Iran is inevitable. The US has been considerably weakened by the war in Ukraine and the 12 day June war last year. There is no accurate account of how many anti-aircraft missiles, particularly THAAD and Patriot missiles it has in its various arsenals and locations. But it is unlikely to be sufficient for a protracted war with Iran especially one supported by Russia and China.

It is in this context that Netanyahu's meeting with Trump this week must be seen. Clearly the Israelis demanded that Trump include missile disarmament in the negotiations with Iran, a demand which Iran says is off the table. It is also likely that the Israelis proposed an end to the negotiations if the missile demand was not included. From all accounts the priority for the Israelis is no longer the nuclear issue but missiles because they now realise that Israel can be destroyed without the use of nukes. From Trump's midnight Truth Social Tweet it is clear he rebuffed the central demands made by Netanyahu who flew away empty handed. *"I insisted that negotiations with Iran continue to see whether or not a deal can be consummated," "There was nothing definitive reached other than that,"* Of course, as expected, his Tweet included the obligatory threat that if Iran did not negotiate, they would be hammered.

Turning to the Ukraine, NATO met on Thursday but without an official US presence for the second time. What is coming clear is that with the growing division of labour between the EU/Britain and the US where the EU is tasked with the European theatre of war while the US focuses on the Western Hemisphere and the south China Sea, NATO is becoming Europe centric.

The meeting committed to continue supporting the 4-year-old war in Ukraine by providing finance, with $38 billion pledged and armaments. The purpose to continue tying down the Russian Military. Ukraine is focusing on hurting Russian energy facilities in line with the US attempting to directly and indirectly curb Russian oil exports.
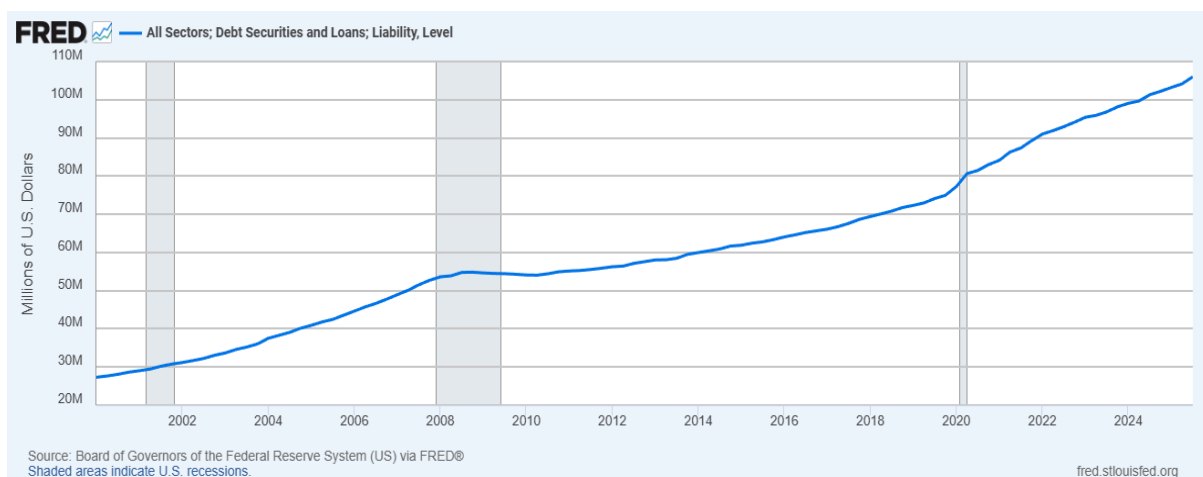
In the meantime, Russia makes steady progress on the battlefront beginning to encroach on Sloviansk and Kramatorsk, the last two major urban conurbations in the Donbass. As always, the peace talks are being torpedoed by Kyiv who refuses to contemplate territorial changes while Russia remains steadfast in its demands for territory and security. These talks always had only one beneficiary, the US itself, the imperative for Trump to pose as the great peacemaker to disguise the defeat suffered by Western Imperialism in the Ukraine. To that end he is willing to dump Zelensky, proving once again Kissinger's observation that "*To be an enemy of America is dangerous but to be its friend could be fatal*".

Conclusion.

The US economy is generally in recession. [Light weight vehicle sales](#) are down. [Existing home sales](#) are down. Retail is down. Long term bonds have fallen out of their previous range as investors perceive a weakening economy. Wall Street as measured by the S&P 500 and NASDAQ indexes are down year to date. If this continues it will knock the remaining pillar supporting the US economy, namely the propensity to spend by the top 10% of income earners based on their capital gains. As I have previously shown, the effect of share price rises last year far outweighed any tax benefits to the rich from Trump's pending Big Beautiful Bill.

And of course, there is [total debt](#) which first exceeded $100 trillion eighteen months ago to now stand at $106 trillion. A debt obese economy held up by an osteoporotic infrastructural skeleton, with puny manufacturing arms supporting giant military fists, but still with a notable brain. That describes the US economy.

Graph 7.

Source: Board of Governors of the Federal Reserve System (US) via FRED®
Shaded areas indicate U.S. recessions.
fred.stlouisfed.org

* Currently productivity seems robust in the USA. This is because GDP is growing at an inflated pace. The overall productivity data is calculated using private Industry GDP divided by aggregate hours worked. As long as GDP growth exceeds hours worked productivity will rise. At present there is no evidence of a sharp contraction in aggregate hours though the average work week is beginning to contract. There is no evidence yet of limited revenue growth either. The effect of the large scale adoption of AI in downstream sectors is only now being seen.

Brain Green, 13th February 2025.