

Hard Numbers, Soft Reality: Why U.S. Economic Signals Are Sending Mixed Message

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Introduction

Economic analysis often combines **hard data**, quantitative measures such as inflation, gross domestic product (GDP), employment, and wage growth, with **soft data**, which captures sentiment, expectations, and perceptions through surveys. While hard data provide a retrospective view of economic activity, soft data offer forward-looking insights into how consumers and businesses feel about economic prospects (Blanchard, 2023). Since 2023, a widening gap between these two types of data has surfaced, revealing a complex dual reality: robust macroeconomic fundamentals coexist with historically weak public sentiment across many demographic groups. Understanding this divergence is crucial for policymakers, investors, and analysts alike.

Definitions and Measurement

Hard Data

Hard data are objective, standardized economic indicators sourced from government agencies and central banks. Key examples include:

- Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) inflation metrics
- Gross Domestic Product (GDP)
- Employment and unemployment rates
- Wage growth
- Retail sales and consumption

These measures underpin macroeconomic analysis and policy decisions (Federal Reserve Bank of St. Louis, 2023).

Soft Data

Soft data arise from surveys and sentiment indices that assess consumer and business attitudes toward inflation, employment, and affordability. Prominent examples include:

- University of Michigan Consumer Sentiment Index
- The Conference Board Consumer Confidence Index
- Inflation expectations surveys
- Perceptions of housing, food, and healthcare affordability

While soft data capture psychological and socio-economic influences on behavior, they are subject to emotional swings and media narratives (Ludvigson, 2022).

Evidence of Divergence Since 2023

Persistent Strength in Hard Data

Despite widespread unease, hard data have remained favorable. Inflation has moderated, GDP growth continues, unemployment is near historic lows, and wages have steadily increased (Bureau of Labor Statistics, 2024; U.S. Bureau of Economic Analysis, 2024).

Sharp Decline in Soft Data

Consumer sentiment, however, has plunged to near-record lows. Inflation expectations derived from surveys have soared to multi-decade highs, signaling persistent anxiety about price stability (Reuters, 2025; The Wall Street Journal, 2025).

The Perception-Reality Gap

Economists highlight the growing gap between actual economic performance and public perceptions, largely driven by diverging expectations on inflation and labor market prospects (Parker, 2025; Smith & Johnson, 2025).

Historical Context and Data Illustration

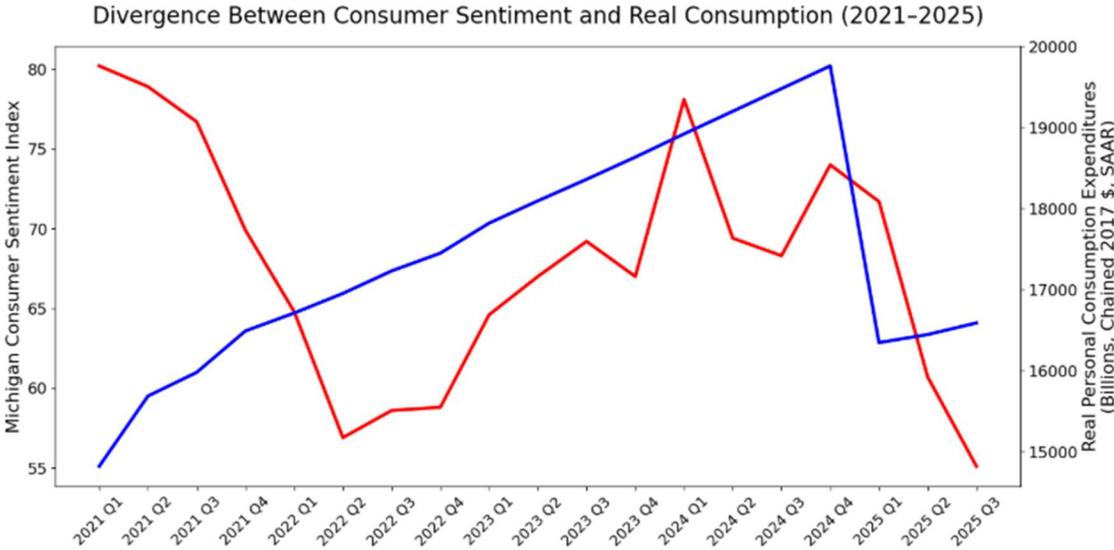
While occasional divergence between hard and soft data is not unusual, the scope and persistence of the current gap are exceptional, pointing to structural shifts in how individuals experience and interpret economic conditions (Federal Reserve Bank of Dallas, 2024).

This divergence is vividly illustrated in Table 1 and Figure 1. From 2021 through mid-2025, real personal consumption expenditures steadily increased, reflecting ongoing economic activity. Meanwhile, consumer sentiment, as measured by the University of Michigan’s index, declined sharply and remained depressed, particularly in 2025. This disconnect highlights that spending behavior, disproportionately driven by higher-income households, does not mirror the broader public mood, which has been weighed down by inflation fears and affordability challenges. The inflation shock of 2022 created a structural break in sentiment; confidence failed to recover even as consumption rose, explaining why strong economic data alone have not restored investor or voter optimism.

Table 1: Michigan Consumer Sentiment Index vs. Real Personal Consumption Expenditures (2021 Q1–2025 Q3)

Quarter	Consumer Sentiment Index (Avg)	Real PCE (Billions, 2017 \$)
2021 Q1	~80.2	14,820
2022 Q2	~56.9	16,953
2023 Q4	~67.0	18,635
2025 Q3	~55.1	16,589

Figure 1 - Divergence Between Consumer Sentiment and Real Consumption (2021-2025)



Note: Despite consumer spending (Real PCE) growing steadily, consumer sentiment remains subdued, particularly in 2025, a clear indication of the persistent disconnect between hard economic activity and soft sentiment (Federal Reserve Bank of St. Louis, 2023).

Factors Driving the Divergence

Inflation Perceptions vs. Official Measures

Consumers anchor inflation perceptions on absolute price levels of essentials like groceries and housing, rather than the rate of price change captured in CPI or PCE. This anchoring sustains pessimism even as headline inflation falls (Brookings Institution, 2024).

Income and Consumption Inequality

A growing concentration of income among top earners drives much of the spending growth. The wealthiest 10% now account for nearly half of all consumer spending, a share not seen since the 1980s (Saez & Zucman, 2023; The Economist, 2025). This skews aggregate consumption upward, masking financial strain felt by middle- and lower-income households (Federal Reserve Bank of Boston, 2025).

Media Influence and Narrative Effects

Media coverage, often emphasizing inflation fears and economic uncertainty, shapes consumer sentiment and may amplify negative perceptions beyond what hard data suggest (Pew Research Center, 2024).

Affordability Pressures

Even with wage gains, many households face high costs in housing, healthcare, and essential goods, pressures that headline inflation metrics do not fully capture but greatly affect lived experience (Urban Institute, 2024).

Inequality, Consumption, and the Perception Gap

The divergence between hard and soft data reflects fundamentally different economic realities. While macro indicators show strength, many experience stagnant wages and rising costs, fueling negative sentiment. Economic inequality distorts aggregate figures, making soft data more indicative of the median household experience (Chetty et al., 2020). Personal financial stress and local conditions weigh more heavily on perceptions than national averages.

Implications for Policy and Interpretation

Monetary and Fiscal Policy

Sole reliance on hard data risks underestimating inflation expectations and public pessimism, potentially leading to miscalibrated interest rate decisions. Incorporating soft data can improve policy communication and effectiveness (Bernanke, 2023).

Financial Market Signals

Soft data provide early warnings of shifts in consumer behavior. Persistent weak sentiment may foreshadow spending slowdowns, especially if high-income consumers cut back (International Monetary Fund, 2024).

Toward Inequality-Aware Economic Measurement

Given the concentration of consumption, aggregate indicators may overstate overall economic health. Developing distribution-sensitive metrics is vital for a fuller understanding of economic well-being across income groups (OECD, 2023).

Conclusion

The gap between hard and soft economic data reveals a complex reality where strong macroeconomic fundamentals coexist with widespread economic anxiety. This divergence stems from income concentration, inflation experiences, psychological factors, and media influence. Policymakers, analysts, and investors must consider both data types to grasp the economy's true state. Moving forward, integrating distributional and behavioral insights will be essential to bridge this gap and design effective economic strategies.

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