

US Economic Update

Think Tank Thursday

Loch Lomond Yacht Club

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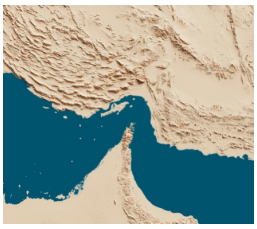
NEED
November 12, 2026



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Outline

- Economic Indicators
- Housing
- Uncertainty/Interest Rates

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Economic Indicators

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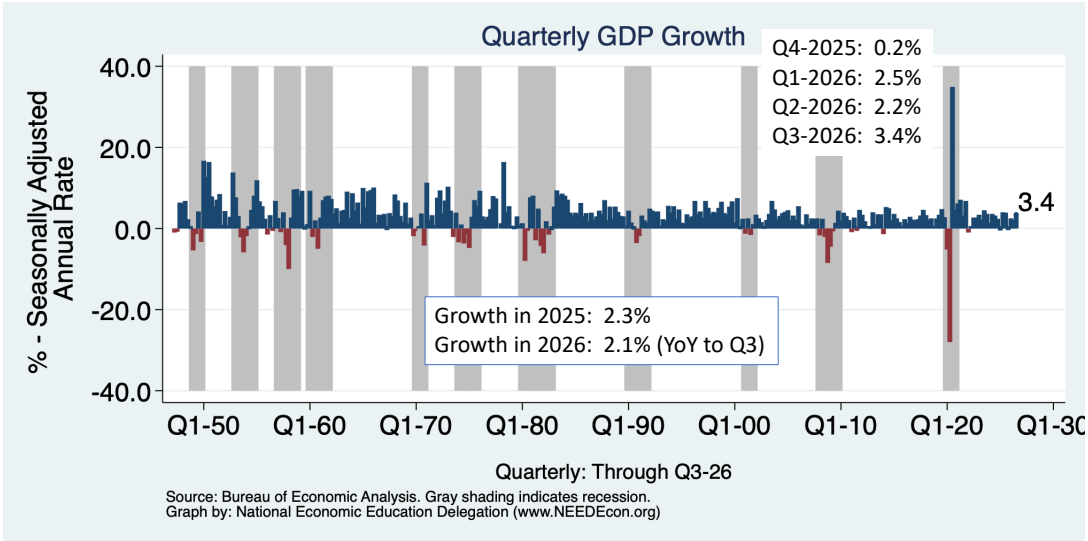
GDP: Quarterly Growth



Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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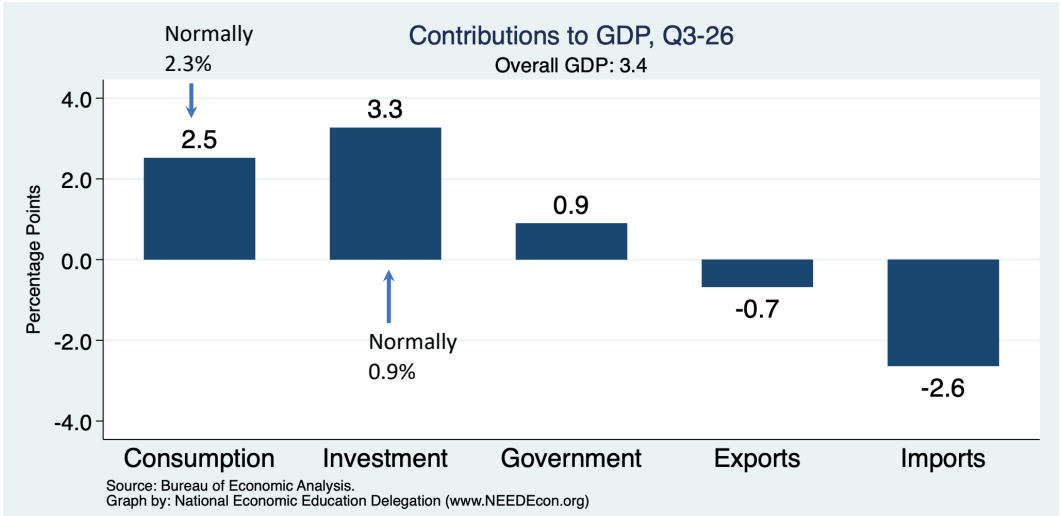
What Drove GDP to Such Growth?



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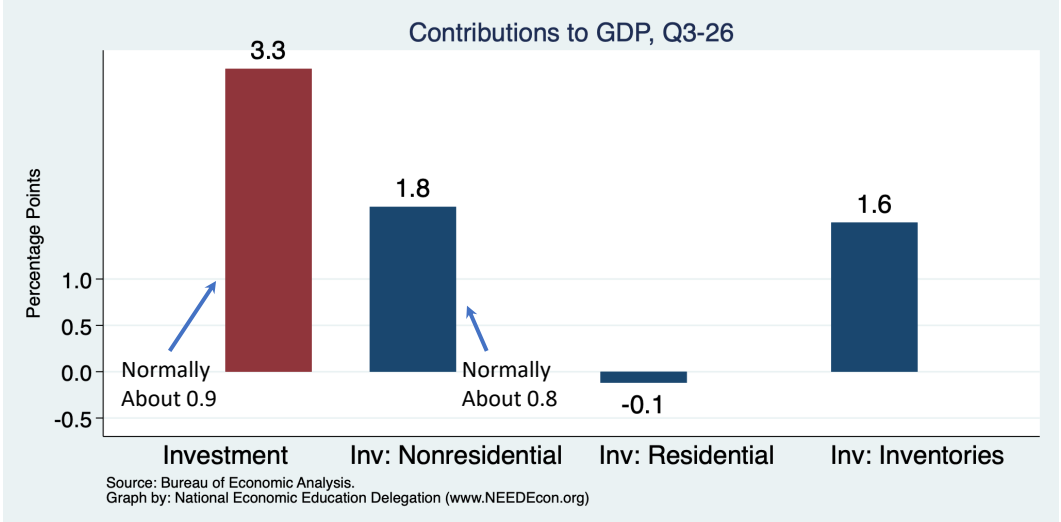
Investment Levels Are Quite High



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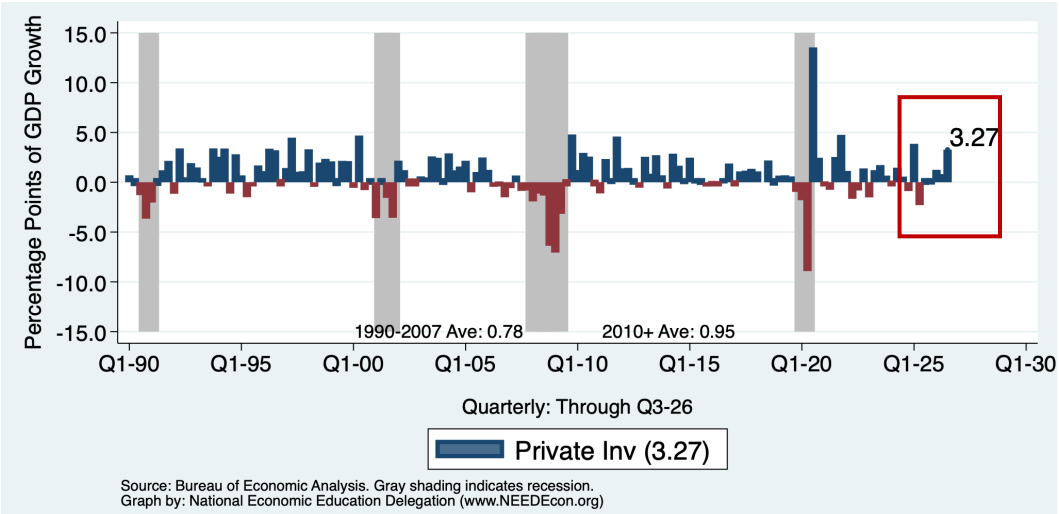
Investment Levels Are AI High



Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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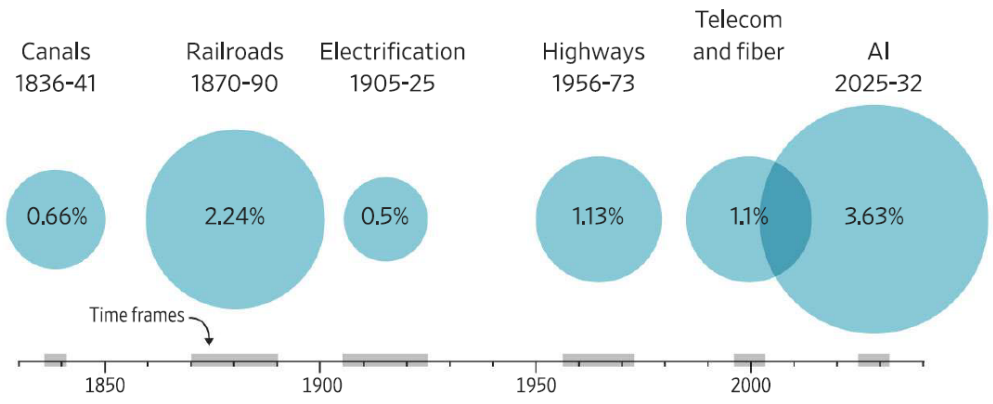
AI Boom is Unprecedented

Average annual infrastructure spending as a percentage of GDP



Source: Stijn van Nieuwerburgh

Note: AI spending is estimated.

https://www.brookings.edu/wp-content/uploads/2026/09/4c_Van-Nieuwerburgh.pdf

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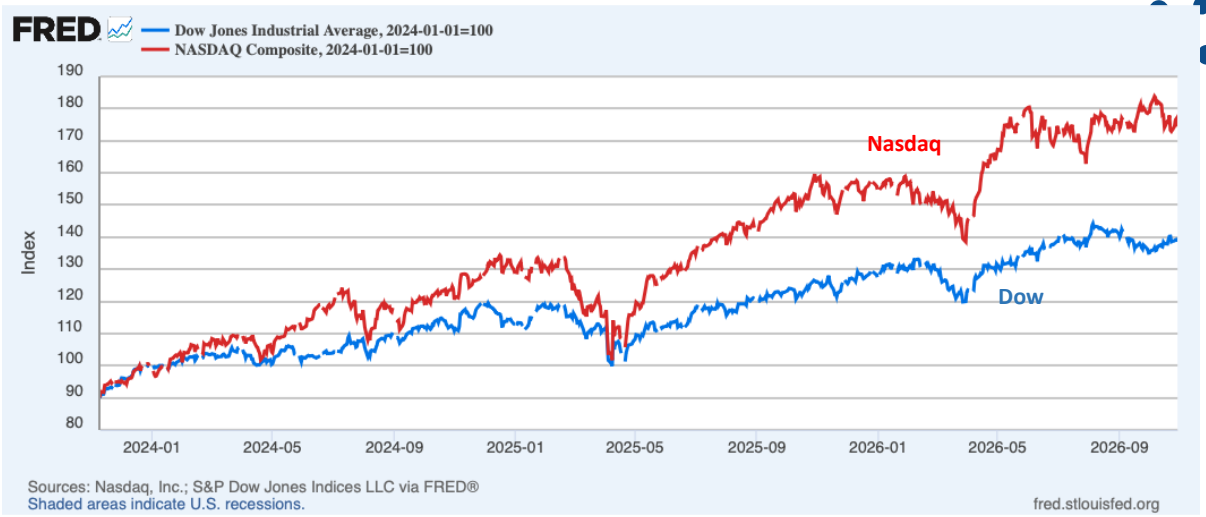
The Stock Market is Being Driven by Tech



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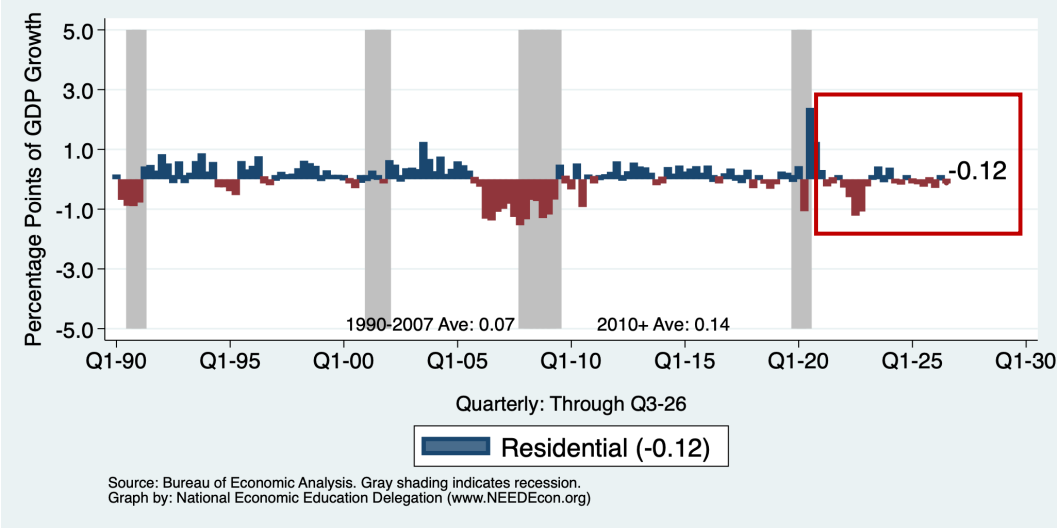
Investment in Residences is Slow



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Housing Starts: A Little Low in 2025 and 26



Source: NBER and Bureau of the Census. Gray shading indicates recession.
Total: New Privately Owned Housing Units Started.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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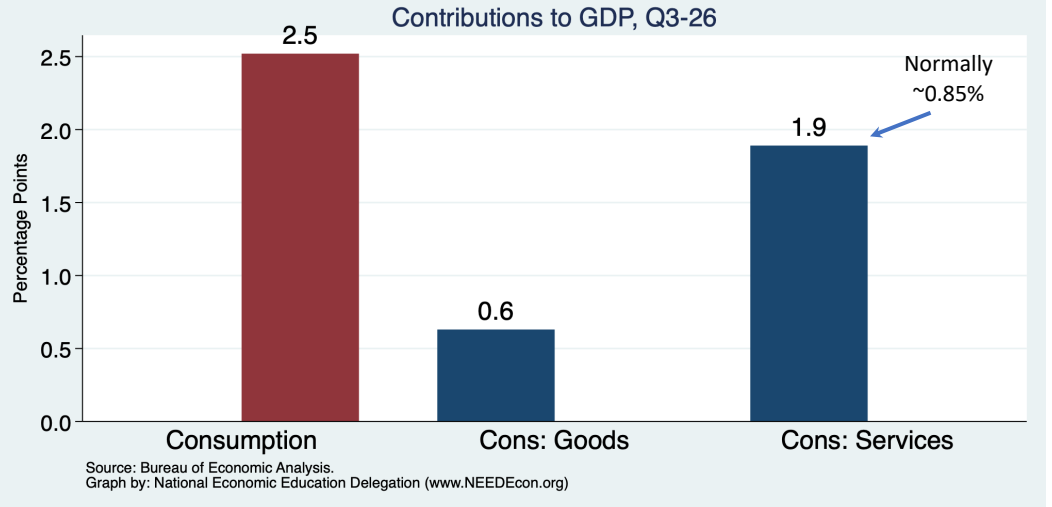
Consumers Continue to Spend



Source: Bureau of Economic Analysis.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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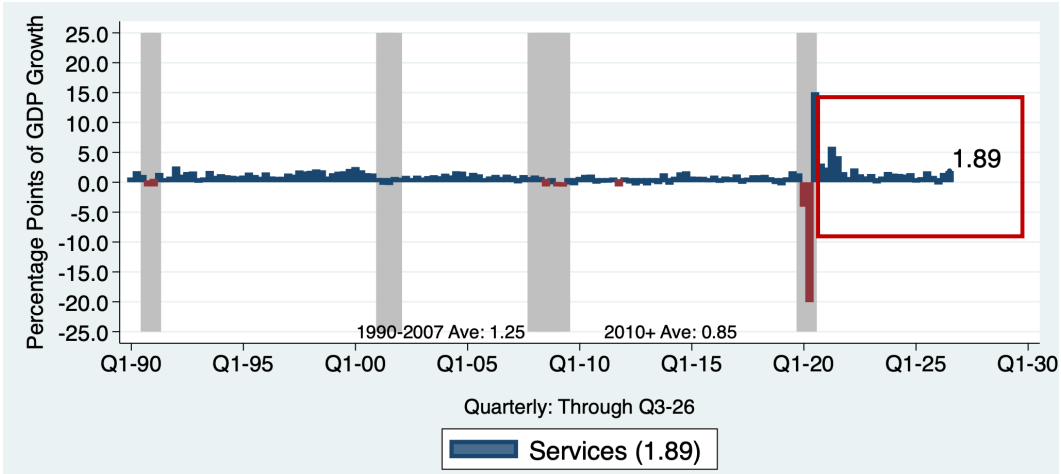
Fast Pace of Services Consumption



Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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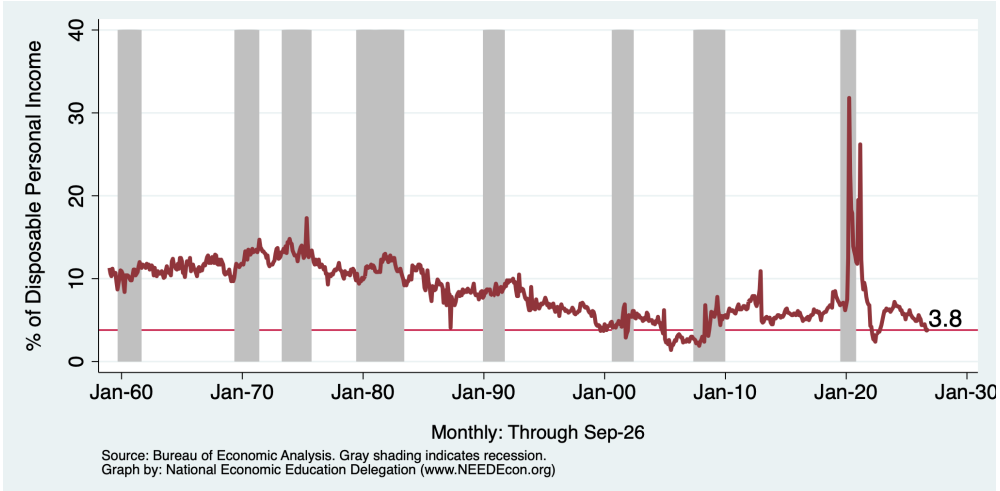
Really Low Savings Rate



Source: Bureau of Economic Analysis. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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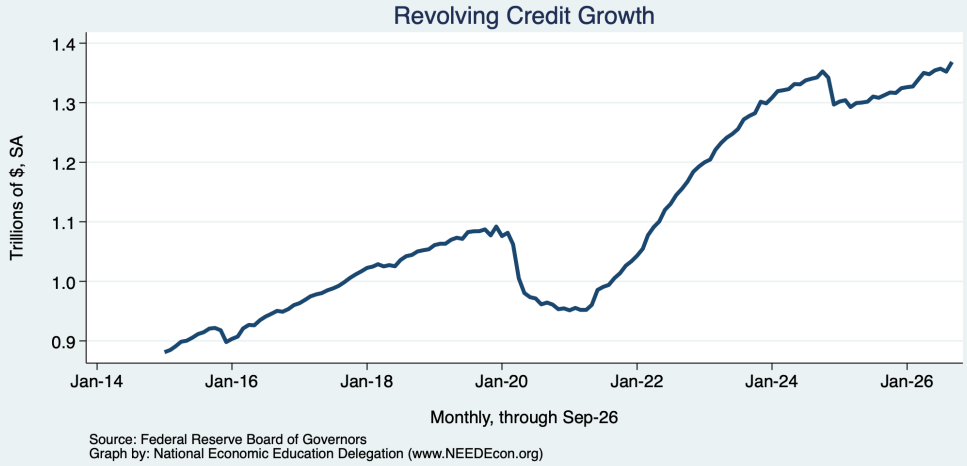
Growing Revolving Credit Balances



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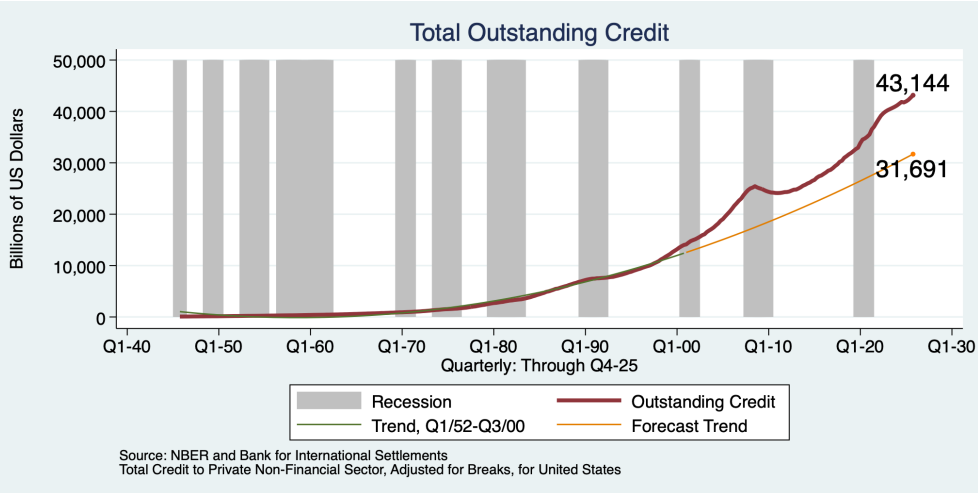
Growing TOTAL Credit Balances



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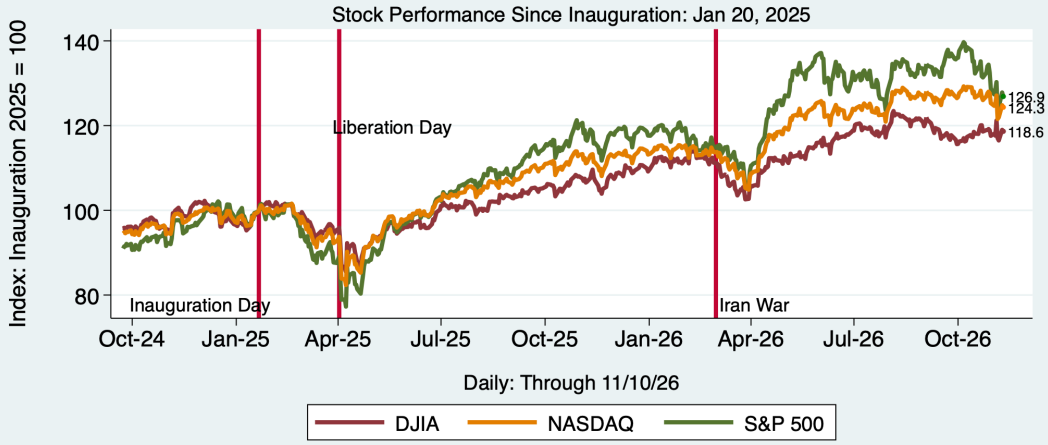
And Stocks? Wealth Effect on Consumption



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Potential Explanations for High Consumption

- **The wealth effect**
- **Low layoffs and stable employment**
- **Inflation-inflated nominal numbers**
  - Much of the increase represents spending more for the same amount of goods rather than an increase in raw purchases.
- **Drawing down savings**
- **Alternative financing**
  - Credit cards, BNPL, 401k hardship withdrawals.

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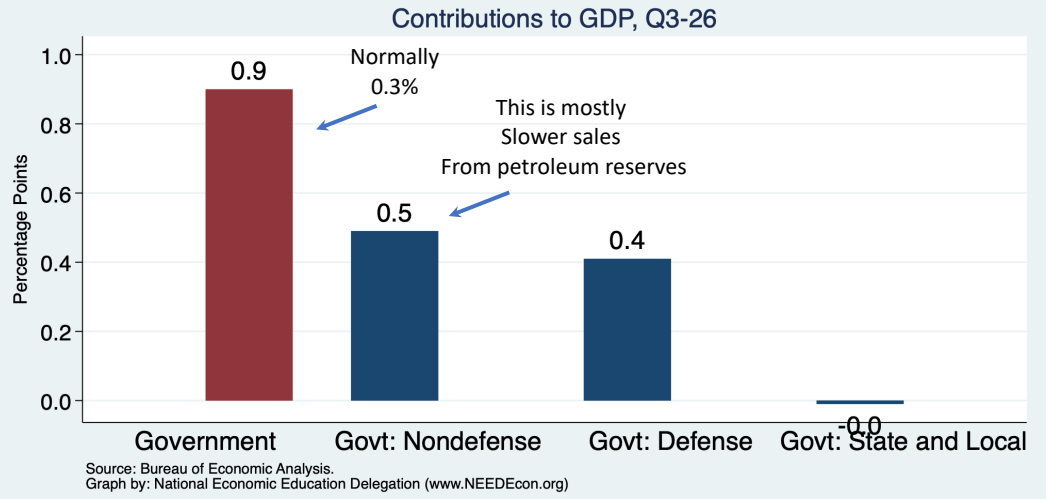
Government Spending is (Not Really) Contributing



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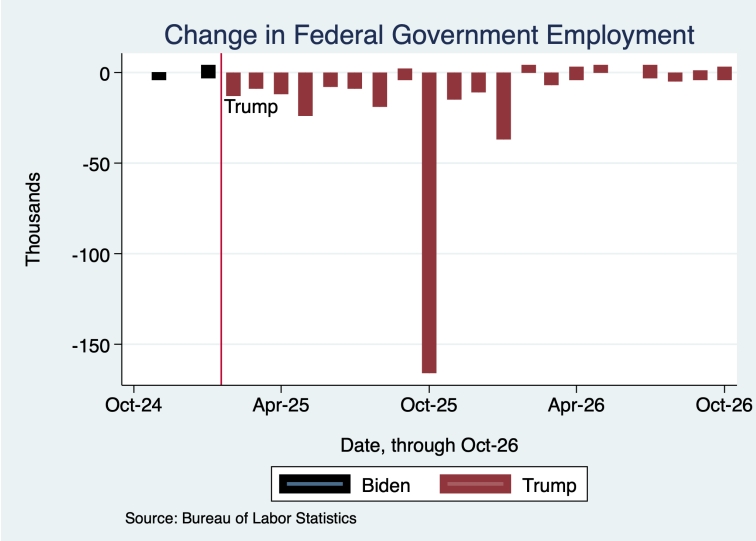
Monthly Changes in Federal Gov't Employment



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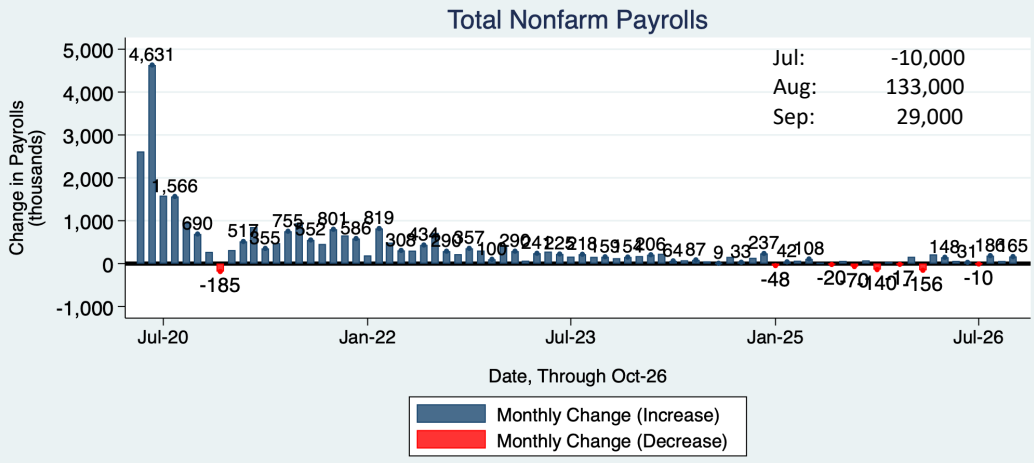
Monthly Changes in Nonfarm Employment



Source: Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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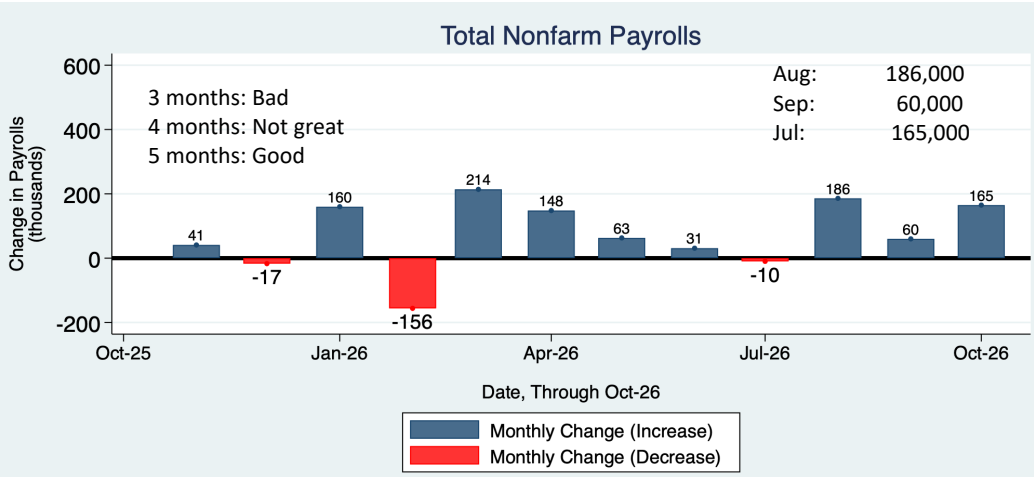
Monthly Changes in Nonfarm Employment



Source: Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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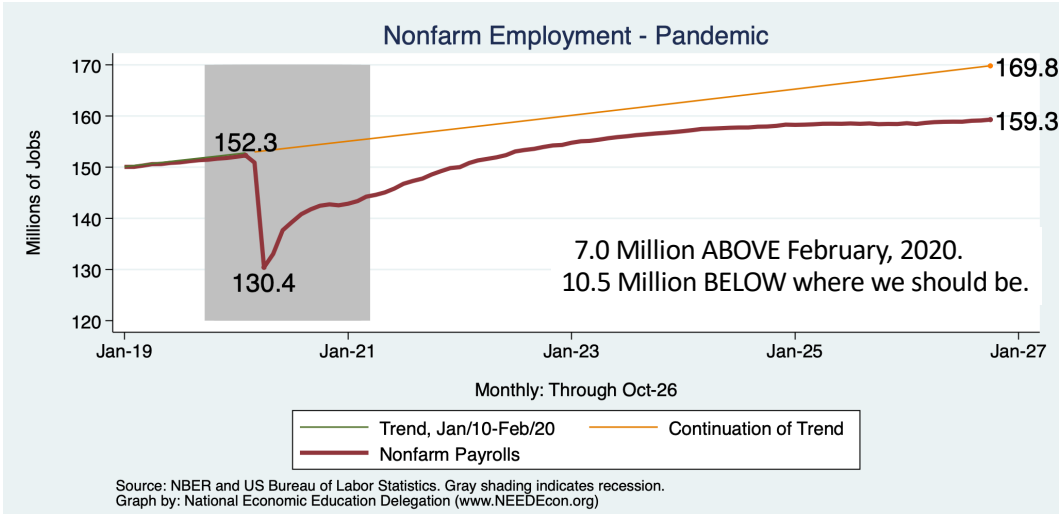
Employment Gap … is Growing



Source: NBER and US Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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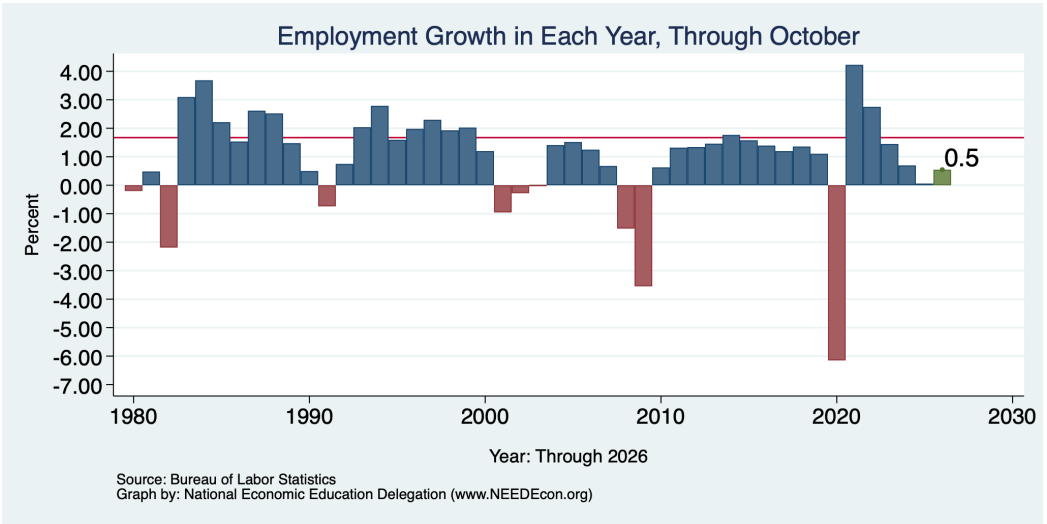
Annual Changes in Nonfarm Employment



Source: Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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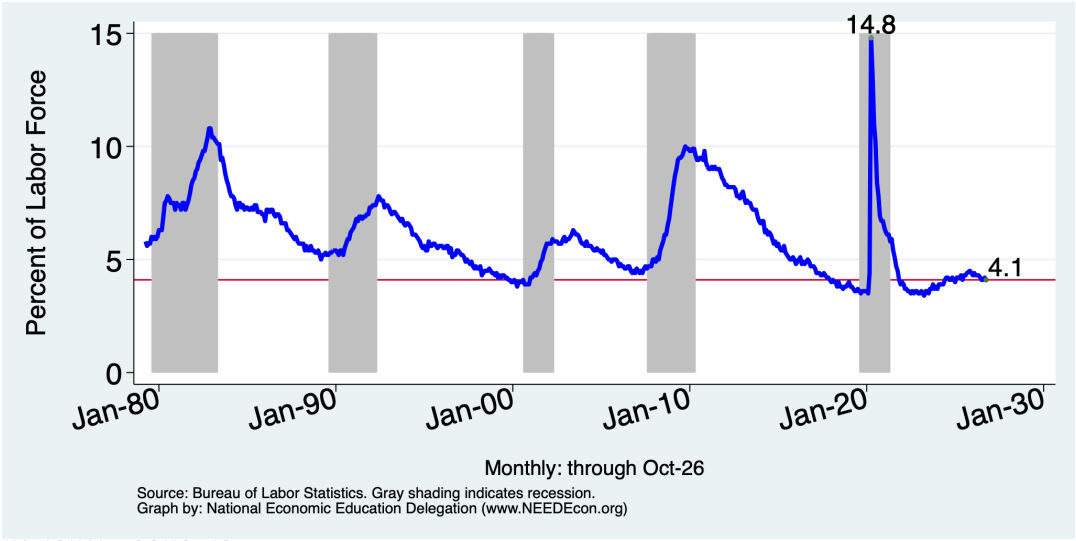
Unemployment Rate



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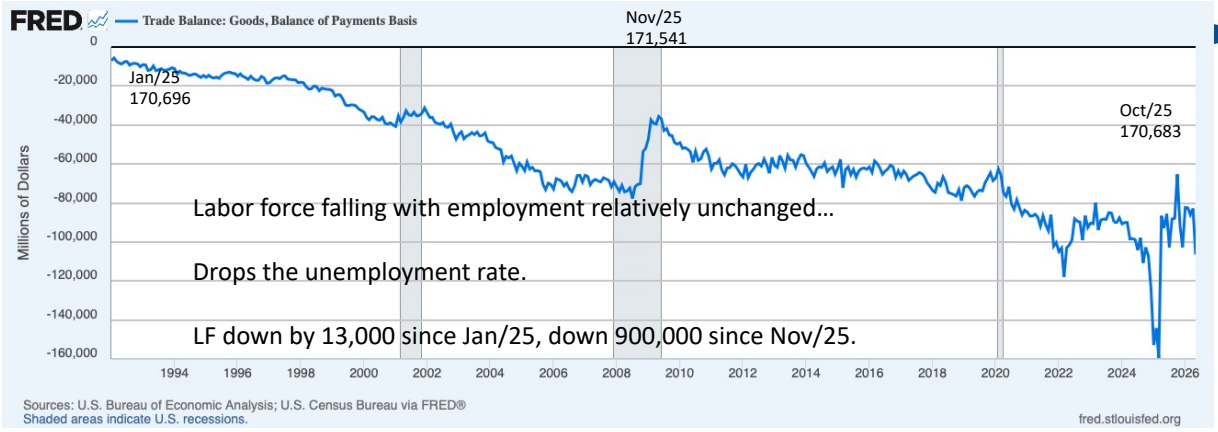
False Comfort from UR – Labor Force Declines



Labor force falling with employment relatively unchanged…

Drops the unemployment rate.

LF down by 13,000 since Jan/25, down 900,000 since Nov/25.

Declines roughly equally split between foreign born and native born.

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Summary

- **GDP is growing rapidly!**
  - Similar to Q3 last year.
  - Driven by AI and consumers
    - Both may be on tenuous footing.
    - Tech stocks are faltering.
    - If AI goes, it may well take consumer spending with it.
- **Employment growth is ok, but nothing to write home about.**
- **Unemployment rate has been low for the wrong reasons.**

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Inflation

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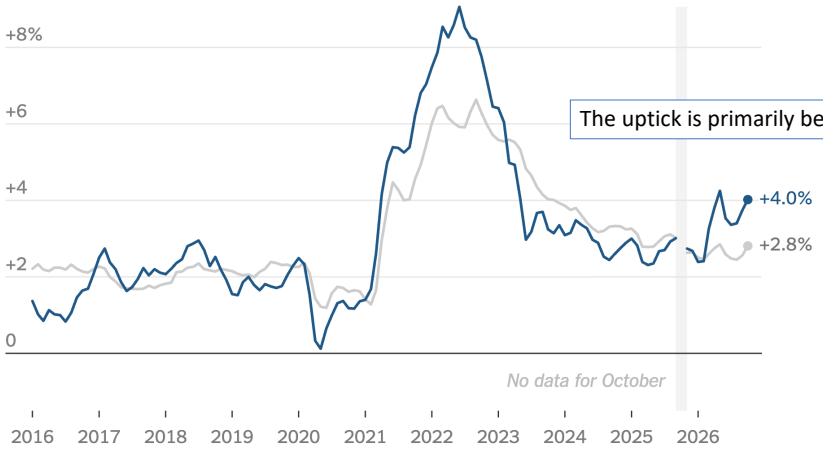
Inflation: Latest Annual Figures



Note: Data is the year-over-year change in the Consumer Price Index. October 2025 is missing because of the government shutdown; the figure for October 2026 is the change between that month and the average of September and November 2025. Source: Bureau of Labor Statistics. By The New York Times

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Source: NYTimes.com

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Inflation: Wage Erosion



Note: Data is not seasonally adjusted. Inflation data is the year-over-year change in the Consumer Price Index. Wages are year-over-year changes in average hourly earnings. October 2025 is missing from the inflation data because of the government shutdown;the figure for October 2026 is the change between that month and the average of September and November 2025.. Source: Bureau of Labor Statistics. The New York Times

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Source: NYTimes.com

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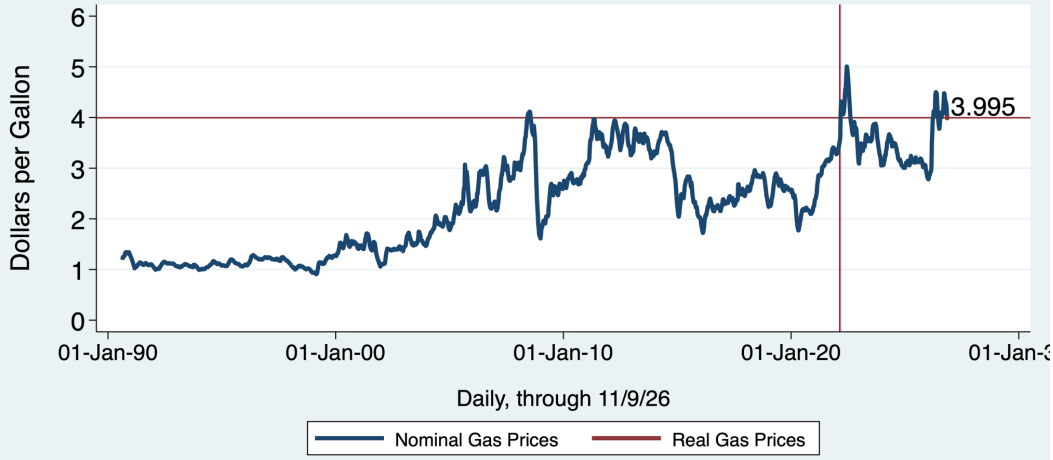
Inflation: Gas Prices



Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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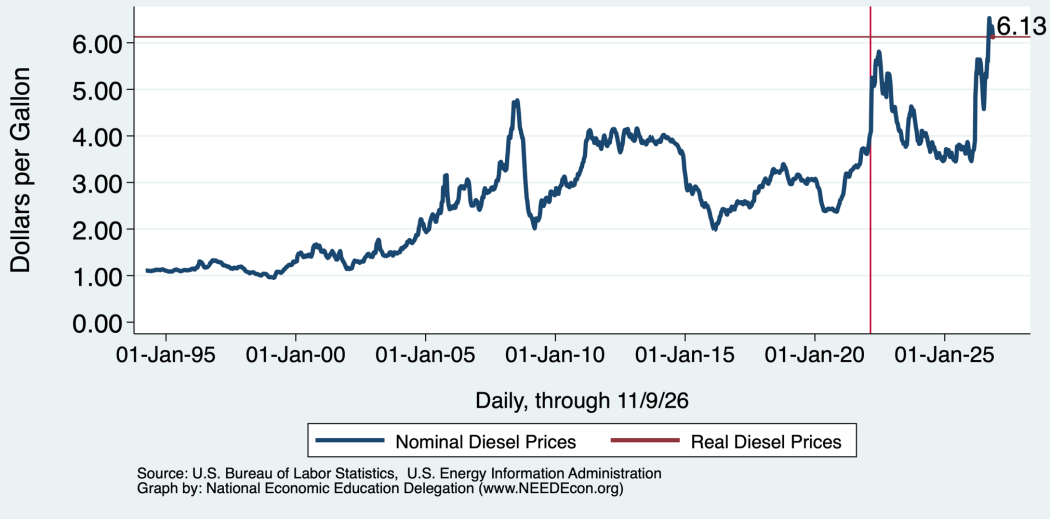
Inflation: Diesel Prices



Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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Federal Reserve

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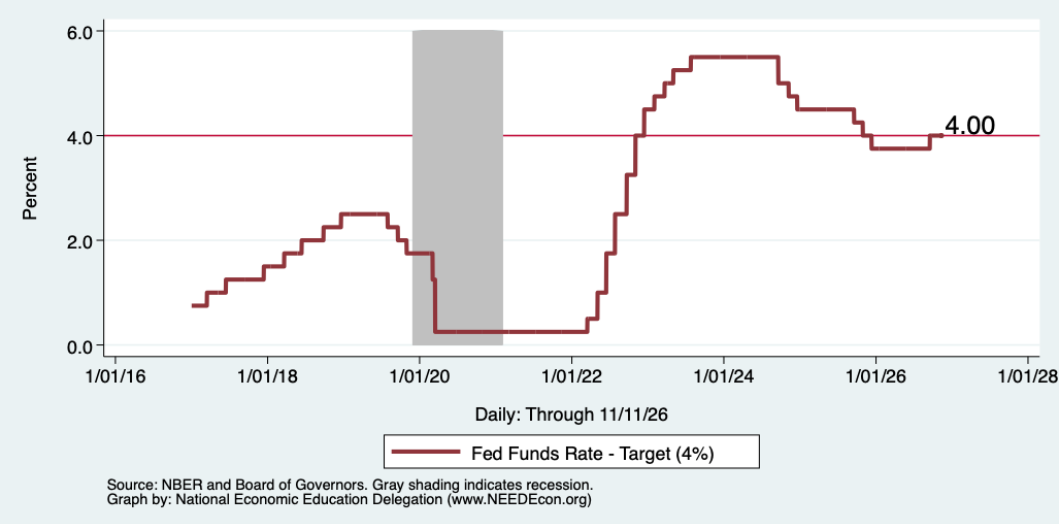
Federal Funds Rate



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Takeaways

- **Is a recession on the horizon?**
  - It seems unlikely.
    - Jobs growth is picking up.
    - GDP growth is pretty good – but can it be sustained?
    - Inflation has ticked up.
- **Stagflation is very possible.**

- **The problem?**
  - Uncertainties abound!
  - Whither AI?

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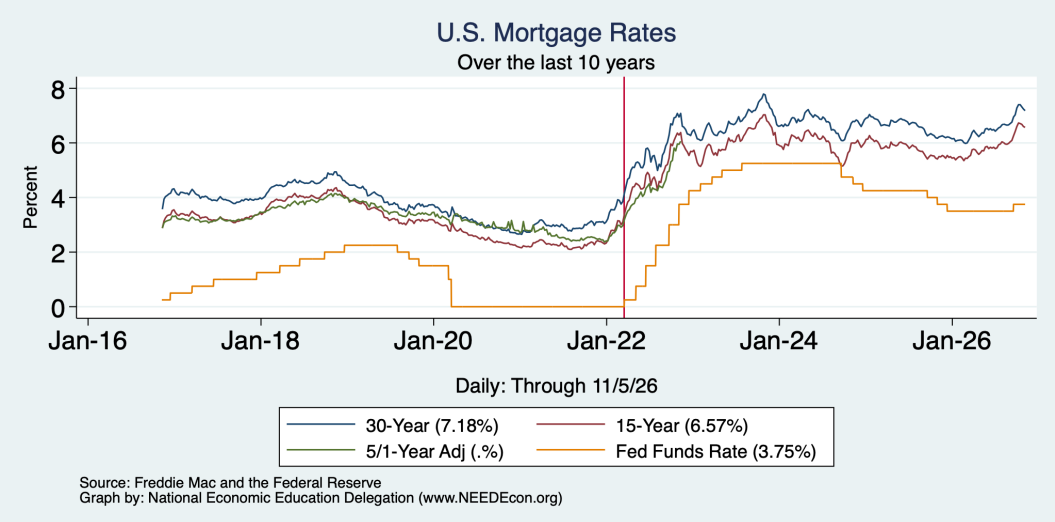
Mortgage Rates



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Bigger Picture: Uncertainty

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Uncertainties

- What effect will continued deportations have?
- Will AI continue to drive growth (and inflation)?
- Will tariffs continue to drive inflation?
- How much is/will the war drive inflation beyond fuel prices?
- Will consumers continue to hold up?
- Fed policy with Kevin Warsh

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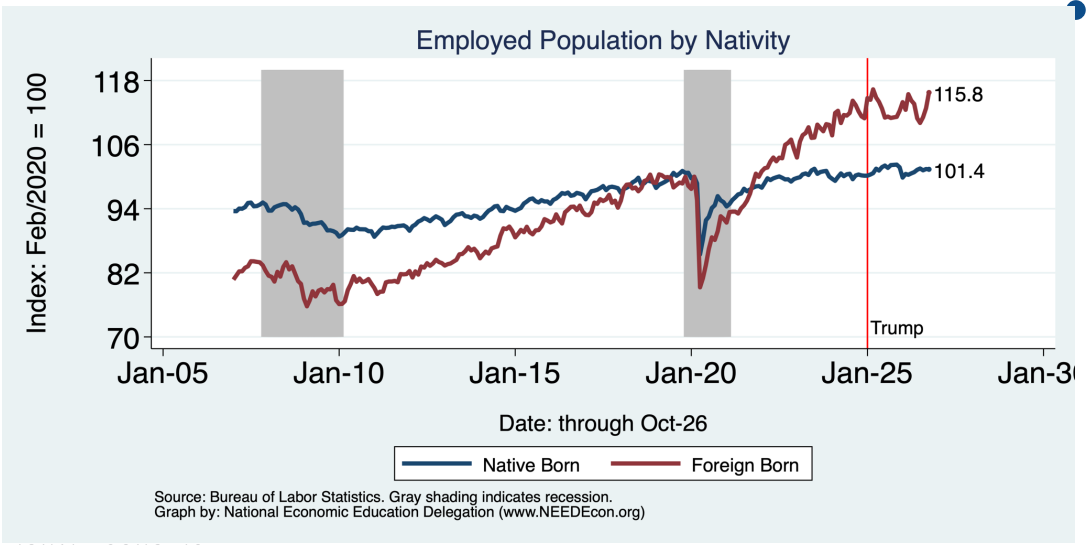
Immigrants to the Rescue? No Longer



Source: Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

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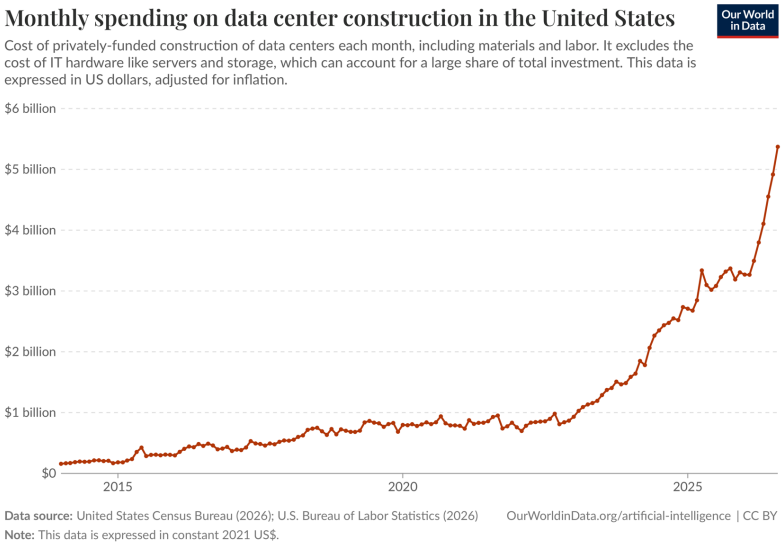
Data Center Investment



Source: www.OurWorldinData.org

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Interest Rates

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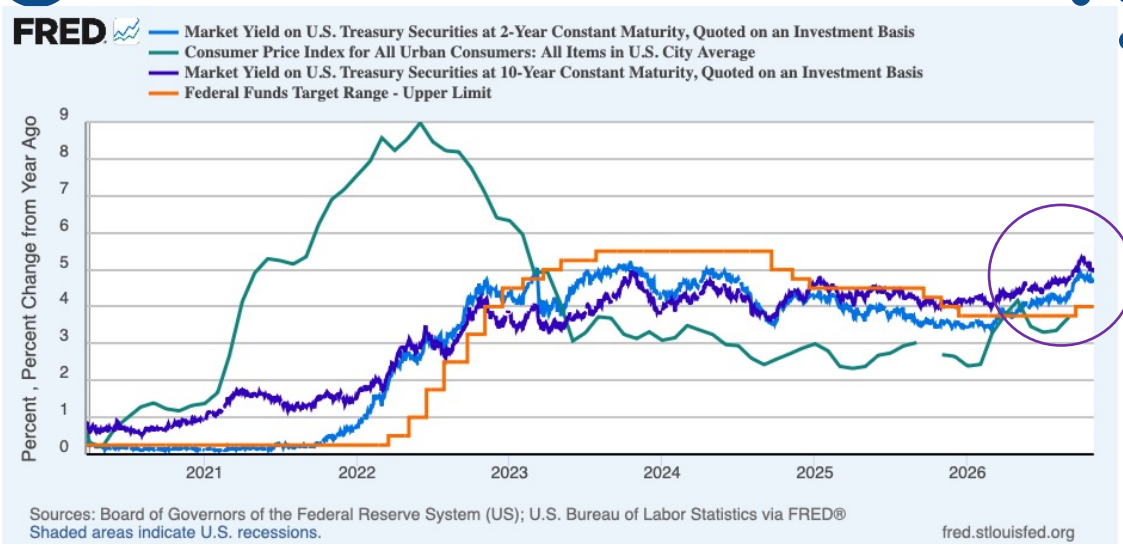
Interest Rate Have Been on the Rise



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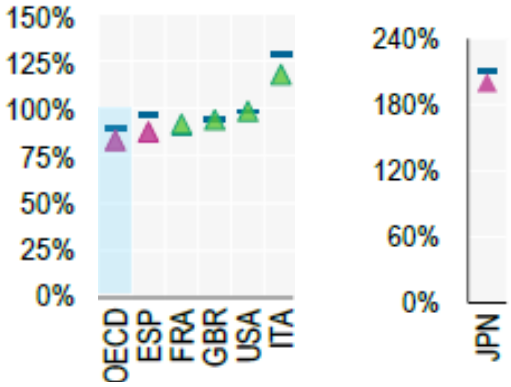
Why Do High Interest Rates Matter?

2025 Levels of Debt to GDP



Effects of 1 pcp increase in interest rates on CBO projections for 2056.

1. Debt-to-GDP ratio rises from 175% to 222%.
2. Deficit rises from 9.1% to 14% of GDP.
3. Interest on the debt rises from 6.9% to 11.4%,at which point it would comprise 60% of total federal revenue.

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OECD (2026), *Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure*, OECD Publishing, Paris, https://doi.org/10.1787/e9d80efd-

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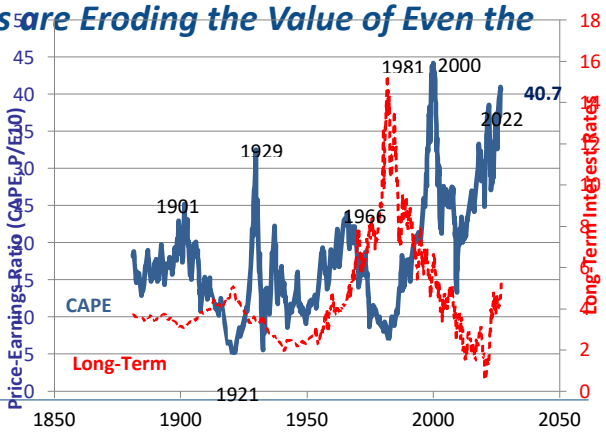
Why Do High Interest Rates Matter 2?

- **Housing shortage and housing affordability.**
- ***WSJ*, 10/5 headline: *The Surge in Rates is Blowing Up Commercial Real-Estate Deals.***
- ***WSJ*, 10/8 headline: *Rising Rates are Eroding the Value of Even the Most High-Flying Tech Stocks***
- **The Stock Market**



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https://shillerdata.com/

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Key Questions

1. What Caused the Increase?
2. Are High Rates Likely to Persist?

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Oversimplified Determinants of Interest Rates

1. The Fed sets “money market” interest rates (maturities less than 6 months).
2. Interest rates on short-term bonds (1 to 3 years) depend on market expectations of the evolution of money markets rates over the life of the bond.
3. Longest- term bonds (30 year) mostly reflect expectations of interest rates when the Fed will meet (at least on average) its objectives.

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The Federal Funds Rate, the Policy Instrument

- **The *federal funds* rate is the interest rate charged on overnight loans of bank reserves between two banks.**
- **The Fed sets a target range for the federal funds rate; currently 3.75% to 4.00%.**
- **If the market federal funds rate rises above 4%, the Fed buys government securities which increases the supply of bank reserves.**

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Since the Start of the Iran war

- **2-yr rate rises (on 3/3) first in anticipation that the Fed would raise the federal funds rate.**
- **30-yr Rates also rising but by less.**
- **Fed raises the federal funds rate in September, but not in October.**
  - Short-rates are signaling substantial increase in the federal funds rate in the next year or so.
  - Long-term rates are signaling that a substantial fraction of those increases will persist.

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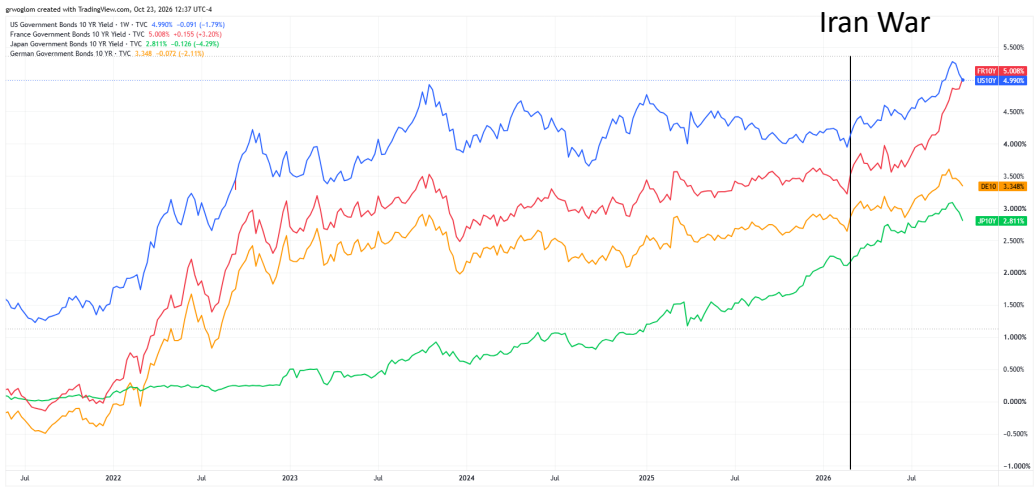
It Is A World-Wide Rise in Rates



Summary

- **Inflation: was getting close to Fed's 2% target.**
  - But is now going in the wrong direction.
- **Current immigration and trade policies are exacerbating inflation.**
- **The war is driving up prices and uncertainty.**
  - Nobody invests into uncertainty.
- **What if the AI bubble bursts?**
  - Tech stocks are not doing well.
- **Interest rates are becoming a problem.**
  - Fear that higher rates will just become entrenched.

Thank you!

Any Questions?

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