

Despite a string of policy disruptions and armed conflicts in 2025 and H1 2026, moderately-strong economic expansion continued. Despite episodes of weakening, recession failed to develop in recent years, despite forecasters' assessment that risk of contraction was elevated at times. The economic outlook nonetheless is uncertain, not least because tensions with Iran wax and wane. Headwinds include dramatic tightening of trade policies, with U.S. tariff hikes or threatened actions met with retaliation by trading partners. Although some agreements have been reached and U.S. courts overruled certain policies, other obstacles remain. Trade difficulties are exacerbated by conflict with Iran and Venezuela, both oil exporters, with disruption of shipping in the Strait of Hormuz. Trade disruptions and elevated oil prices have renewed inflationary pressures and led to policy interest rate hikes in September.¹ Until the latest conflict began, inflation was subsiding gradually, though it proved stubbornly persistent. Still, the U.S. economy so far largely has proved resilient. After real (inflation-adjusted 2017\$) GDP fell 2.1% in 2020, it expanded 6.2% in 2021, saw moderate growth in 2022 through 2024, and similarly gained 2.1% in 2025. The pace continued, with a 2.1% SAAR (Seasonally Adjusted Annual Rates) gain in Q1 2026 before slowing to 1.5% SAAR in Q2.

Consumer sentiment sank as inflation soared in 2022, leaving confidence at record lows. Federal aid bills passed in 2020 and 2021 boosted income and supported strong consumer spending on goods and residential investment, but reduction of aid and high inflation caused real disposable income to decline substantially in 2022; recovery followed, with rapid growth in 2023 slowing to 1.7% growth in 2025. In 2026, real income rose

0.9% SAAR in Q1 before falling 1.5% SAAR in Q2. Consumer sentiment improved since 2022 as inflation fell and real income rose, but sentiment sank again to new-record lows in 2026 as armed conflict developed and oil prices rose. Inflation-adjusted Personal Consumption Expenditure (PCE) fell 2.5% in 2020, followed by annual increases culminating with 2.6% gains in 2025. PCE growth was slow in Q1 2026 but rose to 3.4% SAAR in Q2. Motor vehicles sales remain volatile and significantly lower than in 2019, but sales nonetheless continue to improve slowly; 16.2 million vehicles were sold in 2025, down from 17.0 million in 2019. High tariffs on consumer goods could shift spending toward services, though spending on goods has remained high since the pandemic.

Despite significant increase of mortgage interest rates over the past five years, 1.36 million houses were started in 2025, well below the 1.60 million of 2021 but still ahead of the 1.29 million of 2019. Although real residential investment saw strong gains in 2020 and 2021, spending fell about 8% annually in 2022 and 2023, with moderate recovery in 2024 but another decline of 2.2% in 2025. Spending continued to decline in Q1 2026 before rising 1.3% SAAR in Q2.

Nonresidential fixed investment sustained a fifth consecutive year of moderately strong gains, rising 4.1% in 2025; spending surged 10.6% SAAR in Q1 2026 and 8.5% in Q2. Real spending on non-residential structures grew 16.7% in 2023 before moderating to 1.1% in 2024 and falling 5.3% in 2025. Spending on equipment gained 8.3% in 2025, while investment in software, R&D, and other intellectual property rose 5.6%. Private inventory levels rose \$43 billion in 2024 and \$28.5 billion in 2025.

¹ This Spring 2026 document was revised in September to reflect recent developments. The economic forecast summarized in Table 1 was not updated; it reflects information available in June 2026.

A widening trade deficit restrained economic recovery in 2021 and 2022; the real trade gap expanded from \$616 billion in 2019 to \$1,024 billion in 2022. The trade deficit then narrowed before expanding to \$1,033 billion in 2024; it reached \$1,381 billion SAAR in Q1 2025 before diminishing, but the annual average gap remained large at \$1,091 in 2025 and \$1,084 SAAR in Q2 2026.

Government (federal, state, and local) consumption and investment expenditure rose 3.4% in 2020, with substantial spending to address pandemic needs directly and other spending to sustain economic activity; additional government expenditure provided aid to households and other sectors. Real government consumption and investment then slipped in 2021 and 2022 before gaining 3.5% in 2023 and 3.8% in 2024; spending growth diminished to 1.1% in 2025 with volatility due to the federal shutdown late in the year. Government spending grew moderately in Q1 before declining 1.0% SAAR in Q2 2026. Federal spending fell 1.2% in 2025, with gains of 1.2% for defense and declines of about 4.2% for nondefense sectors. State and local (S&L) spending rose 2.5% in 2025.

Despite widely varying performances during the pandemic and beyond, and despite policy disruptions to international trade, federal activity, and elsewhere, many sectors saw gains in 2025. Industrial production, which includes mining, utilities, and manufacturing, saw strong recovery in 2021 and 2022 before stabilizing with only small changes in 2023 and 2024; the index rose 1.1% in 2025, 1.3% SAAR in Q1 2026, and 4.2% SAAR in Q2. In part, these dynamics reflect recovery of vehicle production and effects of large federal programs including the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the CHIPS (Creating Helpful Incentives to Produce Semiconductors) and Science Act, though the second Trump Administration introduced changes to some Biden-era programs and

enacted new policies. Still, spending and industrial policy introduced through these programs, together with private motivation to shorten supply chains and avoid higher tariffs of the Trump and Biden Administrations, induced large increases in construction of manufacturing facilities. Whether this new investment will lead to substantial and sustained increases in production by U.S. manufacturers remains to be seen, particularly as incomplete investment programs face changes in federal policies and support. Greater trade protections might boost industrial production overall, but effects seem likely to be mixed.

Moderately strong GDP growth, with widespread gains throughout private and public sectors, sustained generally healthy but weaker labor markets in 2025. Millions of jobs vanished in 2020, elevating unemployment rates from 3.6% in December 2019 to 14.9% in April 2020 before they dropped to average 3.6% in 2023, 4.0% in 2024, and 4.3% in 2025. Payroll jobs fell precipitously in the first few months of 2020, but steady gains added 6.8 million to pre-pandemic levels by August 2026. Payroll jobs increased by 1.5 million in 2024 alone, averaging 122 thousand per month, but the rate fell to 10 thousand jobs per month in 2025; it improved to 50 thousand per month over the twelve months ending in August 2026. Although the unemployment rate rose from a low of 3.4% in April 2023 to sustain rates above 4.0% since May 2024, by many indications labor markets at least until recently have remained fairly tight. In particular, the decline in monthly payroll job gains reflects reduced labor supply due to tightening of immigration policy, together with continuing retirement of the Baby-Boom generation, though recent increases in unemployment rates also suggest a degree of weakening in demand. Still, conditions experienced since the pandemic have supported strong wage growth and elevated inflation rates.

Following 7.1% annual price growth in 2022, GDP inflation sustained a lower but still-elevated rate of 2.5% in 2024 and 2.8% in 2025; GDP inflation rose to 3.6% SAAR in Q1 2026 and 6.4% SAAR in Q2. Prices for consumption goods and services (PCE) gained 6.5% in 2022, 2.6% in 2024, and 2.6% in 2025 (4.6% SAAR in Q1 and 5.3% SAAR in Q2 2026); CPI inflation rates typically were somewhat higher but also averaged 2.6% in 2025 (3.2% SAAR in Q1 2026 and 6.1% SAAR in Q2). High tariffs and other pressures threaten to sustain elevated inflation rates through coming quarters and perhaps years, though they gradually should converge with target rates. As tensions with Iran vary, oil prices remain volatile. Energy prices strongly affect broad price indexes, while core (excluding energy and food) price indexes change more gradually; core PCE inflation averaged 2.9% in 2025 and rose 4.4% SAAR in Q1 and 3.6% SAAR in Q2 2026.

Aggressive fiscal and monetary policy, production and logistical difficulties, and geopolitical and other trouble boosted prices substantially since 2021. Policy interest rates were raised 525 basis points between March 2022 and March 2024 to slow the rapid rise in prices. Asset sales by the Fed also supported long-term interest rates; these rates rose substantially but remained low relative to historic norms. These developments facilitated interest rates inversion from mid-2022 until 2024; this condition often precedes recession and stoked substantial concern. Production and distribution (supply) generally improved even as monetary policy acted to restrain demand, and many imbalances diminished despite a variety of difficulties. Such improvements reduced cost pressures that pushed up prices for goods in limited supply, and this helped to reduce inflation. However, present times are highly uncertain, and much depends on developments in monetary and fiscal policy, together with geopolitical developments. The Fed cut policy rates by 175 basis points between September 2024 and December

2025 as inflation declined and unemployment rose, but volatile inflation rates and policy uncertainty led the Fed to maintain a slow pace. In September 2026, the Fed raised policy rates 25 basis points, the first increase since July 2023. Monetary policy is contentious in the current environment, as the wrong strategy could fail to reduce inflation further or could spur recession. In addition to other policy disruptions, trade restrictions well exceed those of the first Trump and the Biden Administrations. The current administration also reduced immigration flows (beyond reduction that came late in the Biden administration) and has deported many who previously entered illegally. Many economists expect such policies to raise production costs by boosting prices for imported items needed in production and by reducing the supply of labor. Reduced supply of immigrant labor could be particularly painful for certain industries that rely heavily on such labor, including agriculture and construction. Substantially higher tariffs on consumer goods will be painful for households, and to some extent real income will suffer as average prices rise.

According to projections formulated in Spring 2026 (summarized in Table 1 below), GDP may rise about 2.1% in 2026 and 2.1% in 2027, with PCE rising 1.9% and 2.0% while nonresidential fixed investment climbs 5.1% and 3.8%. Unemployment could rise from 4.3% in 2025 to average about 4.4% in 2026 and 4.4% in 2027. Inflation rates ultimately should diminish, though increases in tariffs and decreases in immigrant labor supplies could induce a lasting upward shift in price levels. Barring development of greater policy shocks than seem likely at present, GDP inflation could average about 3.6% in 2026 and 2.4% in 2027, with similar rates for PCE inflation of 3.5% in 2026 and 2.4% in 2027. Real disposable income may gain about 1.0% in 2026 and 2.0% in 2027, with slightly greater unemployment and higher consumption prices both acting to limit expansion

of real income. Changes to federal fiscal, regulatory, and other policies likely will have mixed effects on the overall economy, and the balance easily could tip in either direction. Optimism among economic forecasters improved substantially between the spring of 2023 and the end of 2024 despite a myriad of threats to growth; greater optimism of 2025 diminished as conflict with Iran developed, but many economic forecasters again saw little threat of recession in the year ahead (about 30%) in early September 2026. Despite headwinds and widespread uncertainty, economic expansion continued through the summer of 2026.

In the longer run, real GDP will rise with growth of the labor force and labor productivity. Barring immigration reform that allows greater numbers, labor force growth is likely to diminish. Labor productivity rose sluggishly following the Great Recession and was volatile during the pandemic. Adjustments that many firms were forced to make, together with development of new technologies such as artificial intelligence and 3-D printing, could support improved labor productivity. If sustained improvement is achieved, then real GDP growth similarly could sustain greater rates than presently seem likely given expected labor force developments and recent productivity trends. High debt levels may force reductions in

private and public consumption and investment spending, particularly as high federal debt eventually may force substantial tax increases and spending reductions. Despite several years of elevated inflation, price growth eventually seems likely to stabilize and to settle near the Federal Reserve's targeted rates; however, federal policy changes could delay this convergence.

Various developments could alter the prospects for economic growth. Many of the most obvious negative risks are related to trade policy, other fiscal and monetary policy, and geopolitical turmoil. On the other hand, rapid investment in manufacturing facilities (despite recent deceleration of this construction activity) could expand production capacity and reduce vulnerability to trade disruptions. In addition, greater domestic production of electronic chips and other essential goods could improve national security by reducing reliance on uncertain foreign sources. Improvement of roads, telecommunications, and energy infrastructure could bolster business productivity and wellbeing of consumers, with adoption of AI and other new technologies offering great potential benefit. While these and other developments might prove consequential in the years ahead, the forecast presented here attempts to offer a balanced assessment of economic prospects.

Table 1: Forecast for Economic Aggregates²

Average Annual Percentage Growth Rates										
	<u>19-20</u>	<u>20-21</u>	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>	<u>24-25</u>	<u>25-26</u>	<u>26-27</u>	<u>27-30</u>	<u>30-50</u>
Real (Inflation-Adjusted) Quantities, Annual Growth Rates (Percent), Unless Otherwise Specified										
Gross Domestic Product	-2.1	6.2	2.5	2.9	2.8	2.1	2.1	2.1	2.1	1.9
Personal Consumption	-2.5	8.8	3.0	2.6	2.9	2.6	1.9	2.0	2.1	1.9
Durable Goods	7.4	16.4	-2.0	3.8	3.9	3.6	1.9	2.6	3.1	2.6
Nondurable Goods	3.3	8.6	0.2	0.6	2.3	3.0	1.5	1.4	1.7	1.7
Services	-5.8	7.6	4.9	3.0	3.0	2.3	2.0	2.1	2.1	1.9
Gross Private Domestic Investment	-4.4	9.0	6.1	0.8	3.0	1.9	2.6	3.7	3.4	2.6
Gross Private Fixed Investment	-1.9	7.3	2.5	3.4	3.0	2.7	3.2	3.6	3.4	2.6
Nonres. Fixed Investment	-4.6	6.2	6.5	7.3	2.9	4.1	5.1	3.8	3.5	2.7
Nonres. Structures	-9.2	-2.7	3.5	16.7	1.1	-5.3	-3.2	3.0	2.7	1.4
Equipment Investment	-9.9	7.1	2.8	2.9	3.5	8.3	7.2	3.8	3.3	3.0
Intellectual Property	4.5	10.4	11.7	6.2	3.5	5.6	7.4	4.1	3.9	3.2
Residential Investment	7.4	10.6	-8.1	-7.8	3.2	-2.2	-3.5	2.6	3.1	2.0
Inventory Change (Billion 2017\$)	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2030</u>	<u>2050</u>
	-24	23	146	47	43	29	11	32	50	68
Net exports (Billion 2017\$)	-656	-926	-1,024	-925	-1,033	-1,091	-1,061	-1,099	-1,162	-1,076
Exports (% change)	<u>19-20</u>	<u>20-21</u>	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>	<u>24-25</u>	<u>25-26</u>	<u>26-27</u>	<u>27-30</u>	<u>30-50</u>
	-12.6	6.5	7.6	2.8	3.6	1.6	3.8	1.8	2.9	2.7
Imports (% change)	-8.8	14.6	8.5	-0.9	5.8	2.7	1.9	2.3	2.6	2.0
Government	3.4	-0.1	-1.2	3.5	3.8	1.1	0.9	0.9	0.5	0.4
Federal	6.3	1.9	-3.3	3.3	3.8	-1.2	0.5	1.9	0.5	0.3
Defense	2.9	-0.9	-3.8	3.7	4.0	1.2	0.7	1.4	0.4	0.2
Nondefense	11.5	5.7	-2.7	2.8	3.6	-4.2	0.2	2.5	0.5	0.5
State & Local	1.7	-1.3	0.0	3.6	3.8	2.5	1.2	0.4	0.5	0.4
GDP Deflator	1.3	4.6	7.1	3.7	2.5	2.8	3.6	2.4	2.1	2.0
Consumption Deflator	1.1	4.1	6.5	3.8	2.6	2.6	3.5	2.4	2.1	2.0
Civilian Population, ages 16+	0.4	0.4	1.0	1.1	0.6	1.9	0.5	0.5	0.5	0.3
Labor Force	-1.7	0.3	1.9	1.7	0.6	1.6	-0.2	0.8	0.5	0.3
Employment	-5.6	3.2	3.5	1.7	1.3	0.4	-0.2	0.7	0.6	0.3
Labor Productivity	3.1	1.9	-0.6	1.4	1.7	1.4	1.8	1.5	1.6	1.6
Real Disposable Income (2017\$)	6.4	3.9	-5.6	5.7	2.9	1.7	1.0	2.0	2.3	2.0
Unemployment Rate	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2030</u>	<u>2050</u>
	8.1	5.3	3.6	3.6	4.0	4.3	4.4	4.4	4.1	3.9
Interest Rates										
Treasury Bills, 3-month	0.4	0.0	2.0	5.1	5.0	4.1	3.6	3.2	3.1	3.1
Yield, 10 yr. Treasury bonds	0.9	1.4	3.0	4.0	4.2	4.3	4.3	4.2	4.1	4.0
Nominal Quantities (Billion \$)										
Current Account	-565	-869	-1,001	-938	-1,180	-1,135	-1,069	-1,064	-1,165	-1,518
(% of GDP)	-2.6	-3.7	-3.8	-3.4	-4.0	-3.7	-3.3	-3.1	-3.0	-1.8
Federal Net Borrowing	-3,075	-3,015	-1,161	-2,018	-2,106	-1,943	-1,928	-1,946	-2,331	-5,493
(% of GDP)	-14.4	-12.7	-4.5	-7.3	-7.2	-6.3	-5.9	-5.7	-6.0	-6.6

² This summary of the Spring 2026 Inforum forecast was formulated in June 2026.

Risks to the Outlook

Negative Risks

Geopolitical Conflicts: Since late February, conflict with Iran brought recurring closure of the Strait of Hormuz, through which one-fifth of the world's oil supply passes each year. Although a memorandum of understanding briefly eased tensions, fighting again is weighing on the global economy. Sanctions on exports from Russia further constrain global supplies, as the U.S. and other producers cannot easily make up the deficit. Even withdrawal of oil from the Strategic Petroleum Reserve (SPR) and other stocks around the world cannot meet demand for long. Depletion of reserves invites greater vulnerabilities to further disruptions. Even if shipping resumes, reduced traffic through the Strait of Hormuz could continue indefinitely, particularly affecting countries reliant on imported fuel, petrochemicals, and fertilizer. Reduction of oil supply raises energy prices. Higher prices generally are beneficial for domestic oil producers, but the rising cost of gasoline hurts domestic households, and rising diesel prices boost transportation costs. With household budgets strained, consumer sentiment recently sank to record lows.

Tensions elsewhere add to these geopolitical risks. The U.S. military removed former President of Venezuela Nicolás Maduro in January. Reduced sanctions and increased foreign investment eventually could boost extraction from the largest proven oil reserves in the world. Increased exports from Venezuela could expand global oil supplies significantly. Although Venezuelan oil cannot fully replace Persian Gulf exports, increased production could help. Still, raising Venezuela's petroleum output significantly could require years and significant foreign investment to rehabilitate aging infrastructure. In the near future, the effects likely include increased geopolitical uncertainty and shifting trade patterns rather than a dramatic expansion of global oil supplies.

High Tariffs and Trade Tensions: Aggressive use of trade restrictions and tariffs seek to address economic and national security concerns. Supporters contend that tariffs generate significant tax revenue, allow reduction of other distortionary taxes, reduce trade deficits, and protect the domestic manufacturing sector – with particular interest in securing the U.S. economy from geopolitical and other supply vulnerabilities. Critics warn that steep tariffs ultimately raise prices for consumers and American businesses that rely on imported materials and capital goods. Increased costs are mitigated by some firms through increased efficiencies and reduced profits (reducing household capital income), but others must raise prices or close their doors. Net effects could include reduced growth of real household income and GDP.

U.S. import duties have targeted specific products such as steel, aluminum, automobiles, lumber, and semiconductors, while many nations were identified by the Trump administration as trade offenders due to persistent trade imbalances and barriers to U.S. exports. Affected trading partners include both traditional allies (e.g. Mexico, Canada, Japan and the European Union) and geopolitical competitors (e.g. China). Predictably, some countries opted to impose retaliatory tariffs. The result is more-expensive goods and potentially smaller trade volumes.

A Supreme Court ruling ended enforcement of “reciprocal tariffs” and ordered refunds, but the Administration imposed new tariffs justified by legal arguments. Furthermore, on July 1, 2026, the U.S. Trade Representative announced that the United States-Mexico-Canada Agreement (USMCA) will not be renewed in its current form; the USMCA will remain in place while negotiations continue or it is struck down. Such policy uncertainty disrupts the economy by discouraging investment or hiring if costs or viability of export markets are uncertain.

Potential AI Disruptions: Construction of data centers to support development of AI substantially supported economic growth in H1 2026, though rapid expansion perhaps displaced other activities. In particular, data centers consume large amounts of electricity and water, provoking concern about rising electricity prices and spurring new data center restrictions in certain regions. How long this pace of data center development can continue is not clear. The possibility of sudden and dramatic collapse is a troubling reminder of the Dot-Com collapse 25 years ago. While the technology sector (though not all of its firms) eventually recovered, the drop in stock-market values caused trouble for many households and businesses. Bubbles typically are difficult to identify while they are inflating, even if obvious in hindsight. Whether the high valuation of today's AI companies is justified is debatable. Despite enormous investment spending and high stock values, few firms have so far managed to earn substantial returns. A dramatic drop in stock market values for AI firms could bring serious decline to household wealth, implying potential reduction of consumer spending and residential investment.

Data centers will continue to expand. Whether electricity supply can keep up is another key concern. Straining electricity grids to the point of failure poses clear threat to economic activity. Curtailing construction of new data centers, as some state and local governments have begun to do, also threatens economic growth, technological leadership, and perhaps national security. The stakes are high for households and businesses alike.

Sustained High Inflation: While inflation diminished since 2022, it remained elevated in 2025 and

rose in H1 2026. Increased trade restrictions, energy and other supply disruptions due to military conflicts, and perhaps reduction of labor supply due to immigration policy pushed inflation further away from the Federal Reserve's target of 2%.

Despite elimination of some tariffs, trade policies remain restrictive. Peace with Iran could reduce oil prices, but lasting peace has been elusive. Damage to oil and other facilities could take years to repair, reducing supply and sustaining higher prices. Even if higher tariffs ultimately have a lower effect on inflation and price levels than most economists expect, the explanation could be a weakening of demand that reduces upward pressure on price levels.³

Restrictive immigration policies and aggressive deportation also could raise prices. Lower immigration levels reduce the size of the labor force and thus capacity to produce goods and services. Sectors that rely heavily on immigrant workers, including agriculture, construction, and hospitality, are especially vulnerable. Also vulnerable are those that depend on highly-trained professionals; for example, health care services industries depend on a wide variety of immigrant workers, from those with little training to physicians. The Peterson Institute for International Economics estimated that the deportation of 1.3 million unauthorized workers would raise price levels by 1.5 percent between 2025 and 2028. A 2026 report by Brookings estimated that a reduced immigrant labor supply could reduce GDP by 0.1% to 0.3% in 2026.⁴

Following the September 2026 rate increase intended to counter inflation seen in H1 2026, the Federal Open Market Committee (FOMC) could raise rates again in 2026, and cuts presently seem

³ Regis Barnichon and Aayush Singh, "What Can History Tell Us About Tariff Shocks?" Federal Reserve Bank of San Francisco, January 2026. www.frbsf.org/research-and-insights/publications/economic-letter/2026/01/what-can-history-tell-us-about-tariff-shocks/

⁴ See Peterson Institute (www.piie.com/sites/default/files/2024-09/wp24-20.pdf) and Brookings Institution (www.brookings.edu/articles/macroeconomic-implications-of-immigration-flows-in-2025-and-2026-january-2026-update/).

unlikely in 2027. Three-month Treasury rates followed policy rates upward, and 10-year Treasury rates hit 5.0% at times in September (the highest in years). Higher interest rates raise financing costs for private and government borrowers and tend to restrain spending. Further increases will impose additional impediments to debt-financed spending.

Unsustainable Federal Debt Increases: The federal government last realized a budget surplus in FY 2001. Since then, federal debt held by the public has increased from \$3.4 trillion in FY 2001 (32% of GDP) to \$30.3 trillion in FY 2025 (98% of GDP). Federal monetary interest payments rose from \$477 billion in 2019 to \$1,057 billion in 2024. Funds increasingly may need to be diverted from pressing needs in order to make required interest payments on the debt.

High federal deficits represent a significant risk to the domestic economy. It reduces our ability to temper future recessions through effective fiscal policy. Fiscal reform must address problems in both revenue and expenditure policies. Sustainability of federal accounts following passage of the One Big Beautiful Bill of 2025, the Secure America Act of June 2026, and the House's FY 2027 budget resolution proposal of July 2026 rely on assumptions of economic growth that exceed predictions of most forecasters. Such legislation poses substantial difficulties on both revenue and expenditure sides, as did policies of previous administrations. Substantial changes are needed to restrain rising debt levels, yet new spending and tax policies must not unduly stifle private activity. Some do seem to take reform seriously: bills to reform Social Security finances were proposed in June 2026 (the Bipartisan Social Security Commission Act) and July 2026 (the PROMISE Act). Such reforms could prove helpful, but much more is needed to put federal budgets onto a sustainable path.

Positive Risks

AI-Supported Productivity Gains: Despite risks, AI is beginning to deliver productivity gains in sectors

like information services, professional and business services, and finance. This could support higher GDP growth even as labor force expansion slows. Despite potential job losses for some, many other occupations will realize complementarities that yield improved performance.

As AI technology matures, demand for electricity will continue. To what extent is less clear, as efficiency improvements will offset increased demand from expanded computing resources. As the electric utility industry, electrical equipment manufacturing sector, construction companies, and others seek to keep pace with AI providers, many will realize indirect benefits. Ultimately, many such investments will serve other purposes as well. For example, increasing reliance on electric power is due not only to data center expansion but increased adoption of electric vehicles. As EV technology continues to improve, the shift of consumer preferences and business spending will require far greater capacity to produce electric power. Although the rapid increase in electricity demand, and prices, presently is causing dissatisfaction and disruption, the consequent increases in capacity and experimentation with new electric power technologies is welcome.

Other Productivity Gains: After years of modest—and at times volatile—productivity growth, a wave of industrial policy and increased business investment could drive meaningful improvements in U.S. economic performance. Although industrial policy has a mixed record, at best, recent proponents maintain high hopes.

The Biden Administration enacted several large-scale initiatives aimed at strengthening domestic industries and enhancing competitiveness. The Infrastructure Investment and Jobs Act (IIJA) provided roughly \$1 trillion for transportation, utilities, and other physical infrastructure. These projects generate short-term employment in construction, manufacturing, and engineering, and they could

raise long-run productivity by improving transportation networks, utilities, and digital infrastructure. The CHIPS and Science Act complemented these investments by directing roughly \$280 billion toward semiconductor manufacturing, research and development, and workforce training.

The future of federal policy is uncertain, but the early effects of these initiatives may already be evident. Investment in manufacturing structures reached record highs in 2024—a dramatic increase from norms of the previous decade; these investment levels remain high, though they have fallen from the 2024 record pace.

Technologies such as 3-D printing offer additional enhancement of labor productivity and the ability to produce items of advanced design that otherwise would not be feasible. Electricity providers and other supporting sectors might have difficulty keeping up, and many workers might face disruptions, but such technological developments could drive stronger growth in coming years.

Energy Policy: Despite objections from environmentalists and others, the Trump administration's sharp pivot on energy policy has the potential to boost the economy, at least in the short term. Executive orders to support the fossil fuel industry included declaring a national energy emergency, allowing for rapid approvals of new energy and mining projects on federal lands. Despite years of waning reliance on coal-fired electric power plants, the Administration took particular action to encourage continued production and expanded capacity. Whatever the merits overall, the increase in baseload production capacity is welcome.

A more favorable regulatory environment and abundant domestic energy could reduce prices, allowing consumers to divert spending away from gasoline and utilities to other goods and services. Businesses (especially energy-intensive industries such as manufacturing and transportation) could

lower operating costs, expand investment, and improve global competitiveness.

The Biden Administration, along with governments of many other countries, encouraged adoption of green-energy technologies. In addition, technological development and trends in consumer preferences seem to be moving in the same direction; a prominent example is the rapid improvement of electric vehicles that soon could prove superior to those powered by internal-combustion engines. Frequent policy changes may cause firms to delay investment and could weaken the U.S. competitive position in industries such as electric vehicles, batteries, and solar technologies. Still, some firms are adapting quickly to changing environments, including diversion of battery manufacturing capacity from support of electric vehicles to support of electricity grids. Such changes are costly, but investment spending remains brisk.

Whether preference for fossil fuels will substantially revive coal and related industries remains to be seen. While the lives of existing coal-fired electricity producers might be extended, willingness to develop new capacity depends on anticipation of adequate returns on investment. Given lengthy time-to-build requirements for new electric power plants, together with uncertainty about energy policy of future administrations, expected ROI for coal technologies might not be sufficient to spur substantial private investment. Still, the need for expanded baseload electricity supply has renewed interest in nuclear facilities, including the preservation of operating plants, restarting decommissioned plants, and development of new technologies. Expanded nuclear capacity could meet the requirements of data centers for stable and substantial energy supplies while complementing the useful but fluctuating availability of wind and solar production. Streamlining of regulatory processes for nuclear and other technologies, facilitating development of long-distance transmission lines and

other permitting, and stabilization of energy policies in general could boost private investment and economic growth.

The Inforum LIFT U.S. Economic Model

This report summarizes the latest semi-annual forecast of the U.S. economy completed with the Inforum LIFT 4 model. This is the fourth generation of the primary Inforum U.S. model, though earlier Inforum models of the U.S. economy were operating since the 1960s.

The BEA began to publish new and revised economic data in Fall 2023, and publication was completed in the spring of 2024. The new NIPA and industry accounts incorporate newer economic census data and represent a new benchmark, with volumes presented in 2017 dollars. New benchmark input-output tables for 2017 improved and enhanced the information provided in annual input-output tables. These data support development of LIFT 5, which largely is complete and in use; it will support future Inforum forecasting and analytical efforts.

The latest edition is similar to the previous generation (LIFT 4) that was in use from Fall 2021 through Spring 2026, but a variety of improvements have been made. Some changes were prompted by the continual evolution of NAICS codes and corresponding industry data, structural changes to NIPA accounts, and other data developments. In addition, model development reflects the needs of Inforum research sponsors; for example, recent generations of LIFT offer expanded detail for health care supply, government activity, and corporate profits.

Table 2 presents a brief summary of differences between the fourth (now retired) and fifth (new) generations of the LIFT models. Additional details are available upon request and will be presented in forthcoming documentation.

Table 2: The LIFT Model The Fourth and Fifth Generations		
	<u>LIFT 4</u>	<u>LIFT 5</u>
Commodity Sectors	121	121
Input-Output Transaction Matrix	121 x 121	121 x 121
Industries	71	71
Consumption Types	83	83
Construction Types	26	26
Equipment Purchasing Sectors	71	71
Intellectual Property Investment	✓	✓
NAICS/IO Account Standards	2012	2017
NIPA Benchmark	2012	2017

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