

U.S.: An economy increasingly dependent on AI

By Jocelyn Paquet

Summary

- Even though they are released with a certain time lag, quarterly GDP data still provide a wealth of interesting insights into the economy, and the first-quarter figures were no exception, highlighting the overperformance of sectors related to artificial intelligence, particularly investment in information processing equipment and software.
- The strong expansion of these two subsectors is not a new phenomenon. On the contrary, since the fourth quarter of 2022—when ChatGPT was launched—they have grown nearly two and a half times faster than the rest of the economy. As a result, these segments now account for a much larger share of GDP than before.
- Is this a problem? In the long term, GDP's growing dependence on AI could pose a risk, but in the shorter term, the boom should continue to support the economy and contribute to real GDP growth of 2.4% and 2.0%, respectively, in 2026 and 2027. The only problem with this scenario is that it could prove incompatible with a return of inflation to the 2% target.

Although they are released with a certain time lag, quarterly GDP data always provide a wealth of interesting insights into the economy, and the first-quarter figures were no exception. While GDP growth came in slightly below expectations, at an annualized rate of 2.0% for the quarter as a whole, the disappointment was largely attributable to international trade, which shaved no less than 1.3 percentage points off the overall figure, driven by an annualized 21.4% increase in imports.

Contributions to Q1 real GDP growth		
	Contrib.	Q/Q % chg. (ann.)
GDP	2.0	2.0
Consumption	1.08	1.6
Business Investm. Equip.	0.88	17.2
Business Investm. Intell.	0.70	13.0
Business Investm. Struct.	-0.19	-6.7
Residential Investm.	-0.31	-8.0
Government	0.73	4.4
Domestic Demand	2.89	---
Exports	1.32	12.9
Imports	-2.62	21.4
Trade	-1.30	---
Final Sales	1.59	---
Inventories	0.40	---

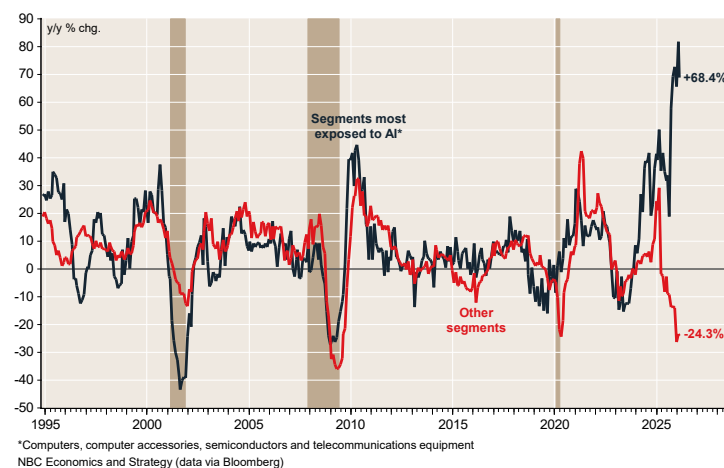
NBC Economics and Strategy (data via Bloomberg)

Under normal circumstances, we would tend to disregard international trade figures when assessing the underlying strength of the economy, as they are often highly volatile and generally revert to the mean over longer periods. But in the current context, marked by a boom in investment in artificial intelligence-related technologies (see below), we believe that such an approach would obscure the fact that, to assess

the true value added of AI spending, one must subtract the value of equipment imported from abroad. And the latter is surely significant, judging by the sharp rise in imports in the segments most exposed to this technology over the past twelve months.

U.S.: Surge in imports driven by AI-related categories

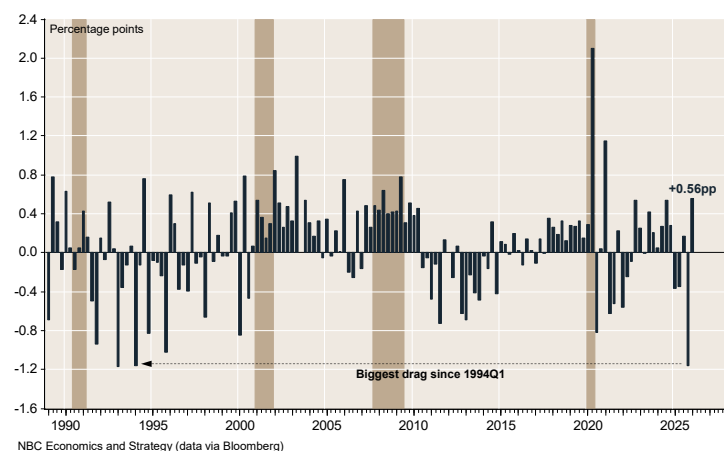
Goods imports on a census basis. Last observation: March 2026



Contrary to the trend observed in international trade, federal government spending boosted growth by approximately 0.6 percentage points in the first quarter. A rebound in this sector was certainly expected after it had shaved no less than 1.2 percentage points off growth in Q4, a consequence of the longest government shutdown in history. However, the recovery was only partial, and spending in this sector remained 2.3% below its third-quarter level.

U.S.: Partial rebound in federal government spending in Q1

Contribution to growth from federal government spending (consumption + investment)

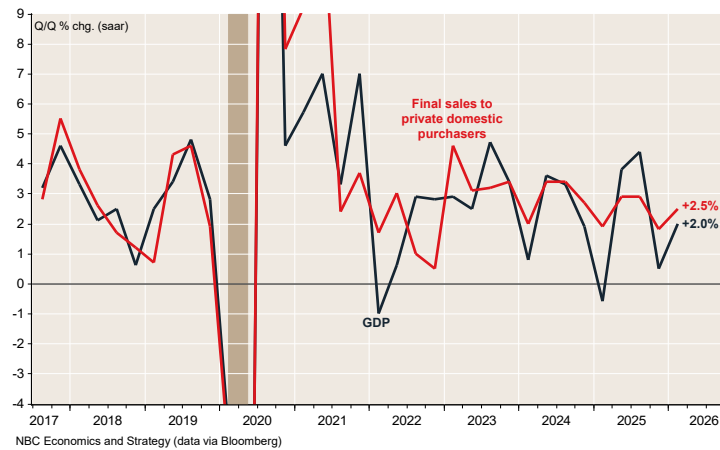


Beyond fluctuations in trade and government spending, final sales to private domestic purchasers remained solid, rising 2.5% in annualized terms over the quarter.



U.S.: Private domestic demand stronger than headline growth in Q1

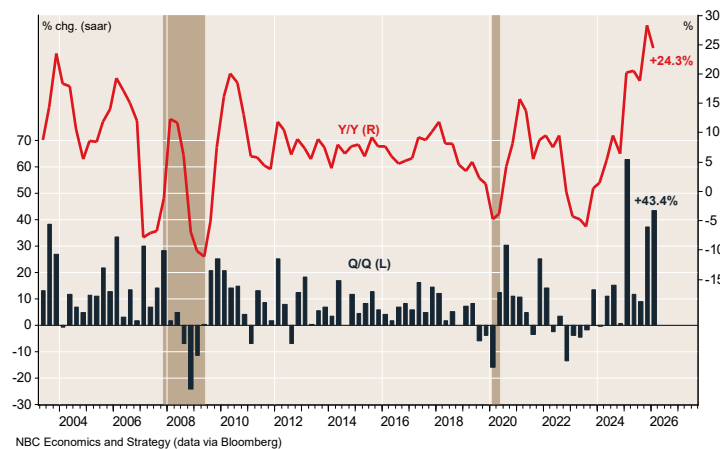
Real GDP vs. final sales to private domestic purchasers (household consumption + gross private investment)



This figure, however, masked significant disparities between AI-related sectors, which posted very strong growth rates, and others, whose performance proved far less robust. Clearly falling into the first category, investments in machinery and equipment grew at a very robust pace, driven by a 43.4% annualized increase in the information processing equipment sub-segment, which includes computers and peripherals such as servers. The situation was similar for investments in intellectual property products, which benefited from a 22.6% increase in the software sector.

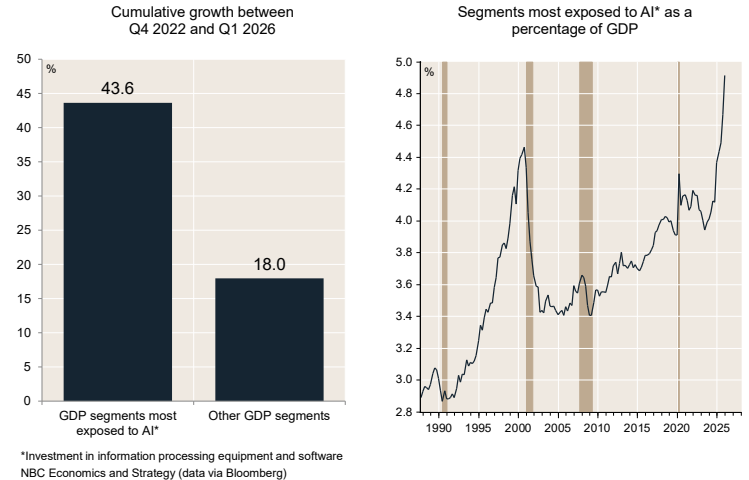
U.S.: AI-related investment categories experiencing strong growth

Private business investment in information processing equipment



The strong growth in these two subsectors is not a new phenomenon. On the contrary, since the fourth quarter of 2022—when ChatGPT was launched—investment in information processing equipment and software has grown nearly two and a half times faster than the rest of the economy. As a result, these segments now account for a much larger share of GDP than before.

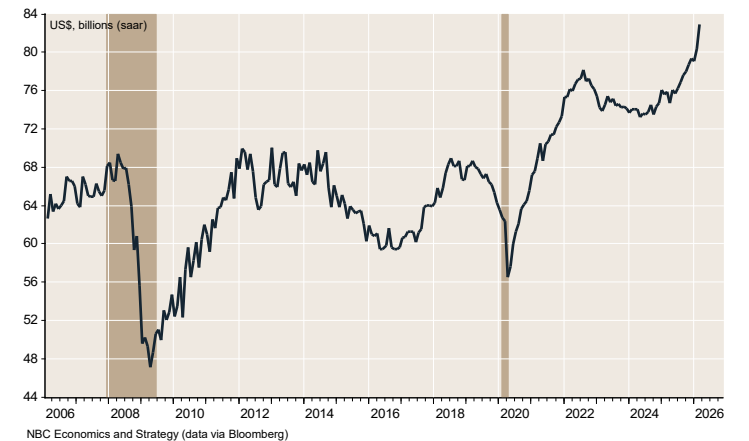
U.S.: Economic growth is becoming more dependent on AI



Is this a problem? In the short term, the answer to this question is probably no. With hyperscalers projecting up to \$800 billion in AI-related spending by 2026, growth in the sectors mentioned above is more likely to accelerate in the future rather than slow down, and economic data tends to confirm this hypothesis. Orders for non-defense capital goods excluding aircraft—which serve as a good leading indicator of future business capital spending—have indeed surged in recent months.

U.S.: AI tech binge set to accelerate in Q2

Orders of non-defense capital goods excluding aircraft

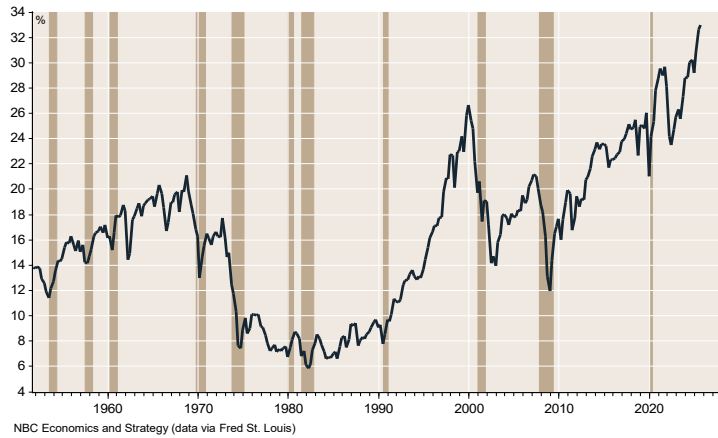


It is in the longer term that GDP's growing dependence on AI could pose a risk, should the economic impact and/or profitability of this technology prove to fall short of current expectations which are, to say the least, ambitious. Such a disappointment would not only affect stock market valuations—which is already a problem in itself, given households' increased exposure to equity—but could also have repercussions elsewhere if, as some predict, companies were to increasingly rely on debt to finance their investments.



U.S.: Households increasingly exposed to stock market fluctuations

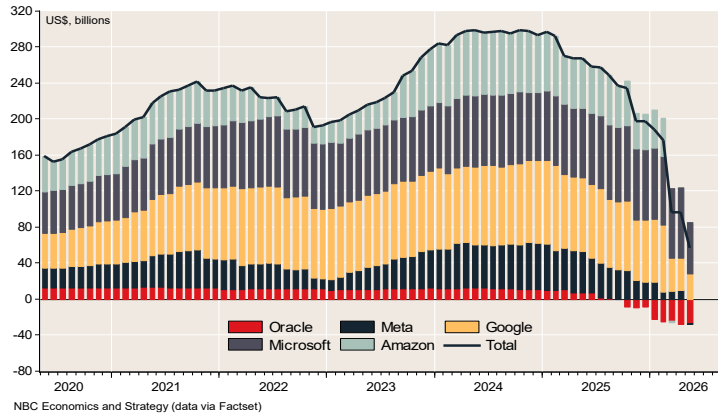
Directly and indirectly held corporate equities as a percentage of total households' assets



So far, most hyperscalers have financed their AI investments primarily through their operating cash flows, but increased reliance on debt or other forms of financing seems almost inevitable in the future. This is because the scale of the investments involved risks quickly exceeding these companies' internal financing capacity. This is already the case for some of them.

U.S.: Hyperscalers soon in need of funding? (1)

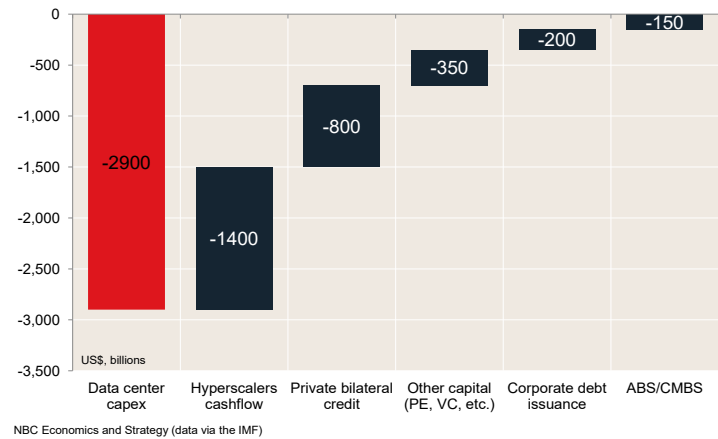
Hyperscalers free cash flow estimates



A recent IMF study¹ indicates that, in a baseline scenario, only about half of data center capital expenditures through 2028 could be financed by operating cash flows. The remainder—nearly \$1.5 trillion—will need to be raised in the credit markets.

U.S.: Hyperscalers soon in need of funding? (2)

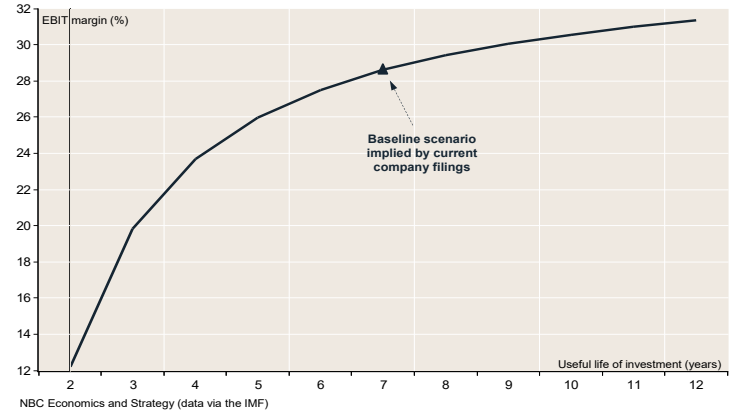
Sources of funding required for the construction of data centers by hyperscalers by 2028, IMF hypothesis



But the need for credit could actually be much greater if certain assumptions regarding the depreciation of AI investments prove to be overly optimistic. Based on the filings of ten hyperscalers, the IMF has estimated that these companies currently assume a useful life for data centers of approximately seven years. However, given how rapidly microprocessors are evolving these days, there are good reasons to believe that the actual depreciation period could be much shorter. If that were the case, the consequences would be significant. A three-year lifespan scenario, for example, would result in a 9% reduction in hyperscalers' margins, punching a \$400 billion hole on their balance sheet. This shortfall would likely have to be covered either by scaling back investment plans or by taking on more debt.

U.S.: Debt take could prove higher if lifespan of chips proves shorter

Hyperscalers' profit margins under different obsolescence scenarios

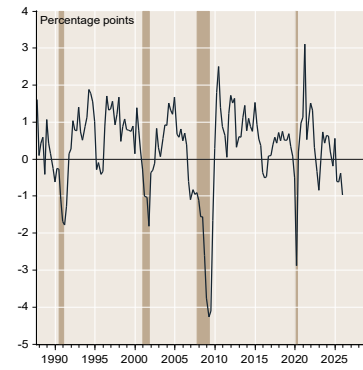


Let's be clear: there is nothing inherently wrong with a company taking on debt if the funds obtained can then be invested productively. But we must also recognize that, in the case at hand, increased borrowing by hyperscalers would spread exposure to AI investments more widely throughout the financial system and thus increase macrofinancial risks in the future.

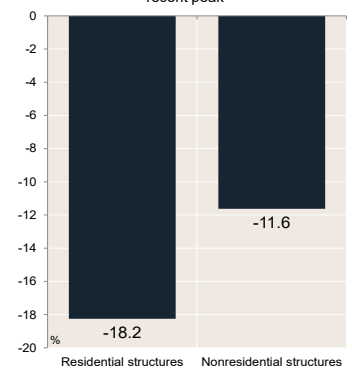
But these are medium- and long-term issues. In the present, one of the drawbacks of the AI boom is that it is causing a phenomenon akin to a Dutch disease in the United States, in which booming sectors absorb nearly all available capital. On the one hand, this reflects market participants' conviction that capital invested in these sectors will generate better returns than elsewhere. On the other hand, it also results from a more restrictive interest rate structure than would otherwise be the case. For by supporting growth (and thereby inflation), investment in AI helps keep borrowing costs high, which penalizes interest-rate-sensitive sectors. The hardest hit have been private investments in residential and non-residential buildings, which are currently weighing on GDP growth as never before outside of recessions.

U.S.: Non-AI investment in the doldrums

Contribution of non-AI private investment* to GDP growth over the past 12 months



Private investment in residential and non-residential structures, drawdown since most recent peak**



*Private investment excluding spending on information processing equipment and software **Investment in residential structures peaked in 2021Q1 while investment in nonresidential structures peaked in 2023Q4
NBC Economics and Strategy (data via Bloomberg)

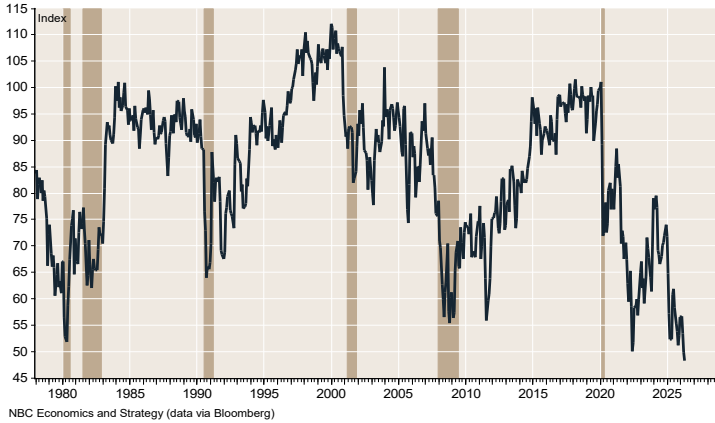
¹ <https://www.imf.org/-/media/files/publications/gfssr/2026/april/english/ch1.pdf>



U.S. households, which are less sensitive to interest rate fluctuations than those in other countries due to their preference for 30-year fixed-rate mortgages, are faring better for now, although certain weaknesses are beginning to emerge among them as well. Starting with their confidence level, which hit a historic low in May according to the University of Michigan.

U.S. : Household confidence at a record low in May

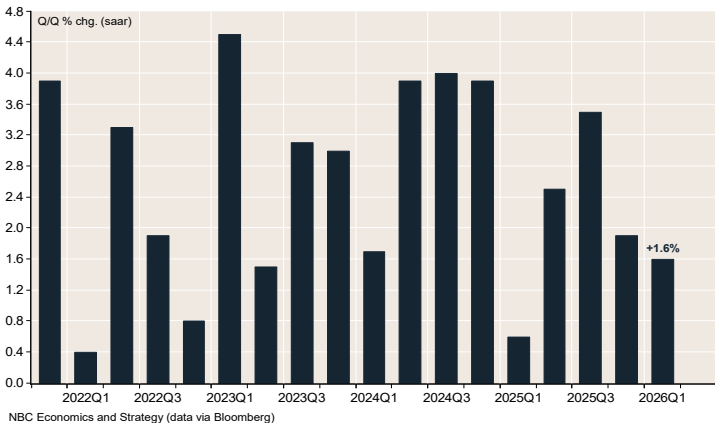
University of Michigan Consumer Sentiment Index



This decline followed a rather sluggish quarter, during which consumer spending growth was the weakest it had been in a year.

U.S.: Households took a breather in Q1

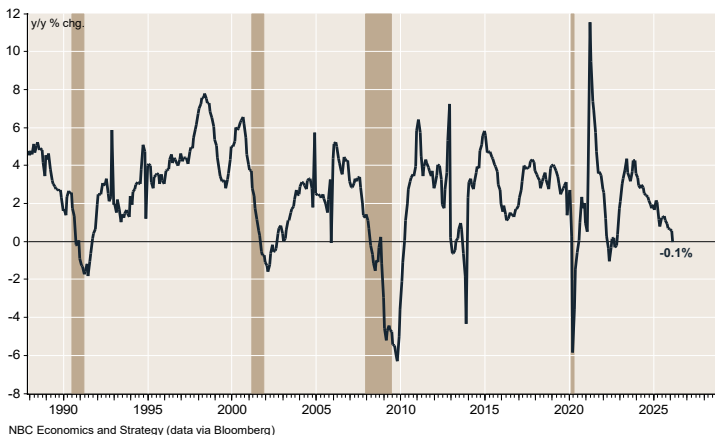
Personal consumption expenditures



While this situation could be partly explained by poor weather conditions and a marked slowdown in population growth during the quarter, it also reflected stagnation in real disposable income amid rather modest job creation.

U.S.: Income growth is now contracting

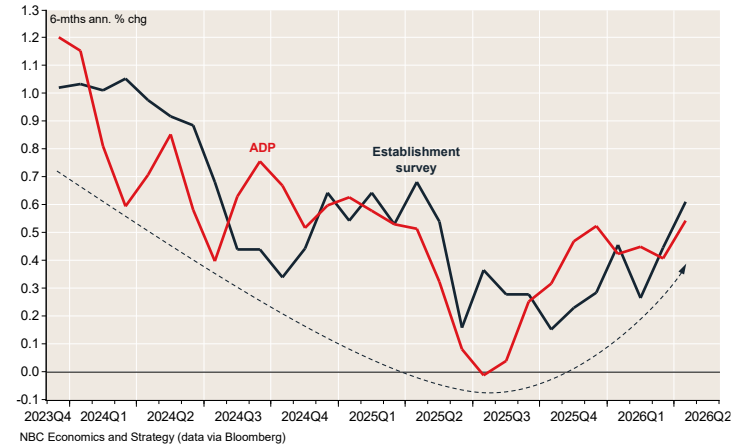
Real personal income excluding transfer receipts



This situation does not worry us unduly. Since wages are the main driver of disposable income, a strengthening labour market could go a long way toward revitalizing household finances. Such a turnaround appears to be taking place right now, as the effects of the One Big Beautiful Bill begin to be felt in the economy. Indeed, both the household survey and the ADP survey show an acceleration in private-sector job creation over the past six months.

U.S.: Private employment has regained momentum

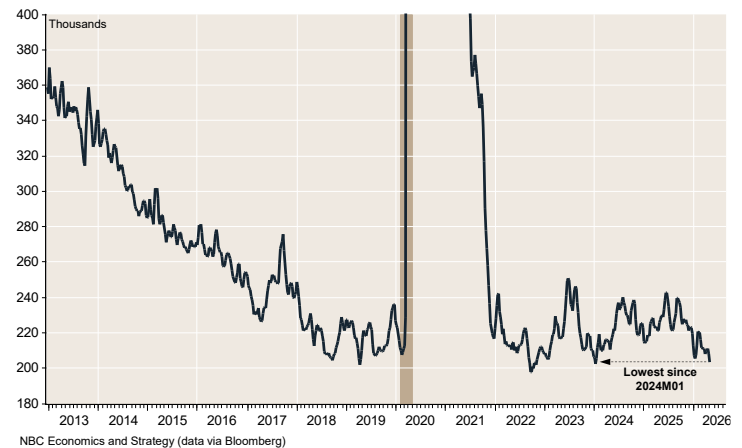
Private employment, establishment survey vs. ADP survey



This recovery seems all the more promising to us as it coincides with a notable decline in layoffs in recent weeks, as evidenced by the fact that the four-week average of initial jobless claims is at its lowest level since January 2024.

U.S.: Claims data hint at very limited layoffs

Initial jobless claims, 4-week moving average

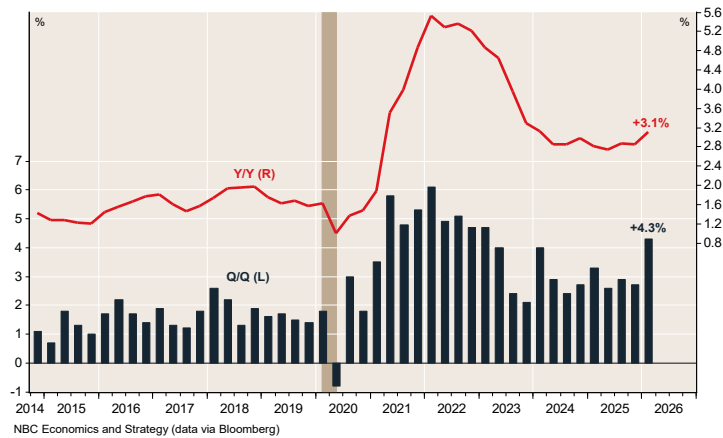


These developments lead us to believe that the worst may be over for households and that consumption growth could accelerate as the year progresses. If our forecasts hold true, household resilience and continued growth in AI-related spending should allow GDP growth to remain above its potential in the coming quarters. The only problem with this scenario is that it may prove incompatible with a return of inflation toward the 2% target. Already in the first quarter, while consumer demand remained fairly weak, the core personal consumption expenditures (PCE) deflator rose at its fastest pace since the first quarter of 2023 (+4.3% on an annualized basis), pushing the 12-month rate to a two-year high of 3.1%. While tariffs played a role in this rebound, other factors were also at play, notably the rise in prices for several electronic products due to strong demand for microprocessors. The war in Iran, however, was not to blame, as the outbreak of the conflict occurred too late to have an impact on core inflation in Q1.



U.S.: Inflation picked up pace in Q1

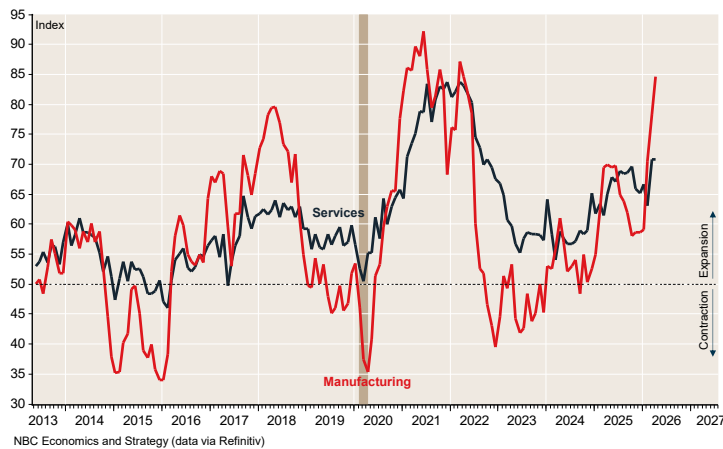
Core personal consumption expenditures deflator (excluding food and energy)



Inflationary pressures also do not appear to have eased in the second quarter, judging by the sharp rise in the input price sub-indices in the ISM PMI reports. Here, of course, the war in Iran was a factor, but it seems to have merely accentuated a trend already visible in the data.

U.S.: Price pressures are still building

Prices paid sub-indices, ISM PMI Reports



Could the resurgence of inflation jeopardize the expansion by prompting the Federal Reserve to adopt a more restrictive monetary policy? The upward shift in energy prices—not only in spot markets but also in futures markets—has certainly made the possibility of policy rate cuts this year much less likely, as evidenced by the OIS markets.

U.S.: Markets do not see the Fed cutting rates this year anymore

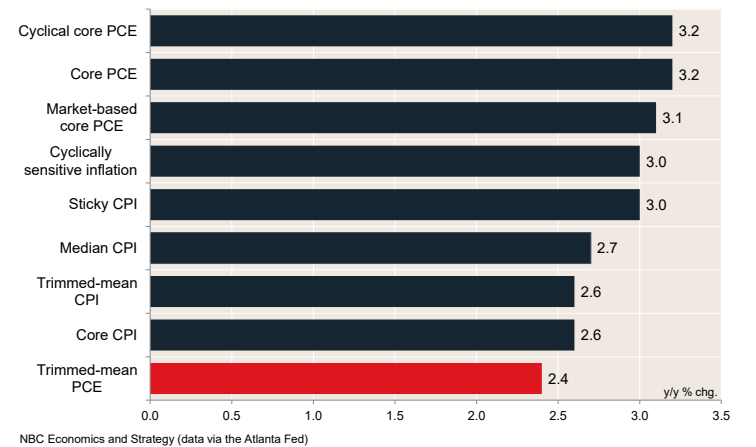
Market expectations for changes in the Fed's policy interest rates by the end of the year



But could policymakers go so far as to consider monetary tightening this year? Given their recent statements, we believe it would take a fairly dramatic rise in inflation to prompt them to act in this way. For although growth remains solid, inflation has exceeded the central bank's target for the past five years and is showing signs of accelerating, and hiring has picked up in recent months, the FOMC has been reluctant to abandon its dovish bias. One can certainly debate the merits of this stance, but it is likely to be reinforced under the leadership of the new Fed Chairman, Kevin Warsh. During his Senate confirmation hearing, Warsh stated that the data currently used to assess inflation were far from perfect and that, in his view, the Fed should pay more attention to truncated means. Specifically, he cited the trimmed mean PCE index published by the Dallas Fed. While we recognize that every inflation measure has its own strengths and weaknesses, and that Mr. Warsh may have a genuine theoretical preference for the trimmed PCE, we still find the choice of this specific measure suspect at a time when many are questioning the Fed's independence. This is because, of the nine core inflation measures tracked by the Federal Reserve Bank of Atlanta in its dashboard, the trimmed PCE had the lowest 12-month rate in March.

U.S.: Is Kevin Warsh leaning dovish?

Core inflation measures tracked by the Atlanta Fed (as of March 2026)



Could it be that the next Fed chair wishes to downplay inflation risks in order to keep policy rates as low as possible? It is impossible to say for certain, but his statements are unlikely to dispel these suspicions.

Whether or not one agrees with the central bank's current (and likely future) stance, monetary policy should nevertheless continue to stimulate the economy. This is partly why we forecast real GDP growth of 2.4% and 2.0%, respectively, in 2026 and 2027. But this combination of above-potential growth and lenient monetary policy will also, in our view, delay the return of inflation to target, particularly if the conflict in Iran were to drag on. We have been warning about the risks of overheating in the United States for several months now, and unfortunately, these risks have only increased recently.



United States – Economic Forecast

(Annual % change)*						Q4/Q4		
	2023	2024	2025	2026	2027	2025	2026	2027
Gross domestic product (2017 \$)	2.9	2.8	2.1	2.4	2.0	2.0	2.2	2.1
Consumption	2.6	2.9	2.6	2.1	2.1	2.1	1.9	2.2
Residential construction	(7.8)	3.2	(2.2)	(3.5)	1.4	(3.8)	(1.8)	2.2
Business investment	7.3	2.9	4.1	5.9	4.3	5.6	6.5	3.8
Government expenditures	3.5	3.8	1.1	1.0	1.6	(1.2)	2.5	1.5
Exports	2.8	3.6	1.6	4.8	1.0	1.1	4.4	1.9
Imports	(0.9)	5.8	2.7	3.7	3.1	(1.9)	8.4	2.6
Change in inventories (bil. \$)	47.4	43.5	28.5	24.4	17.5	(15.6)	35.0	10.0
Domestic demand	2.9	3.1	2.4	2.2	2.3	1.8	2.5	2.3
Real disposable income	5.7	2.9	1.7	1.2	2.2	1.3	1.8	2.2
Payroll employment	2.2	1.2	0.5	0.3	1.0	0.2	0.6	1.2
Unemployment rate	3.6	4.0	4.3	4.4	4.1	4.5	4.4	4.0
Inflation	4.1	3.0	2.7	3.2	2.6	2.7	3.1	2.9
Before-tax profits	7.6	5.1	7.3	7.7	4.0	9.6	2.4	3.7
Current account (bil. \$)	(928.0)	(1,185.3)	(1,116.0)	(887.5)	(837.5)

* or as noted

National Bank of Canada

Financial Forecast**

	Current							
	5-08-26	Q2 2026	Q3 2026	Q4 2026	Q1 2027	2025	2026	2027
Fed Fund Target Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.25
3 month Treasury bills	3.60	3.65	3.65	3.60	3.50	3.57	3.60	3.15
Treasury yield curve								
2-Year	3.90	3.90	3.95	3.90	3.75	3.47	3.90	3.50
5-Year	4.02	4.05	4.10	4.10	4.05	3.73	4.10	3.75
10-Year	4.38	4.40	4.45	4.50	4.55	4.18	4.50	4.45
30-Year	4.95	5.00	5.05	5.10	5.15	4.84	5.10	5.00
Exchange rates								
U.S.\$/Euro	1.18	1.15	1.17	1.19	1.20	1.17	1.19	1.22
YEN/U.S.\$	157	160	159	156	154	157	156	147

** end of period

Quarterly pattern

	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027
	actual	actual	actual	forecast	forecast	forecast	forecast	forecast
Real GDP growth (q/q % chg. saar)	3.8	4.4	0.5	2.0	3.5	1.9	1.6	1.7
CPI (y/y % chg.)	2.5	2.9	2.7	2.7	3.7	3.2	3.1	2.8
CPI ex. food and energy (y/y % chg.)	2.8	3.1	2.7	2.5	2.7	2.6	2.8	2.8
Unemployment rate (%)	4.2	4.3	4.5	4.3	4.4	4.5	4.4	4.3

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