

ECONOMIC OUTLOOK



REGIONS

October 2026

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Revised Data Put A Firmer Floor Under (Most Of) The U.S. Economy

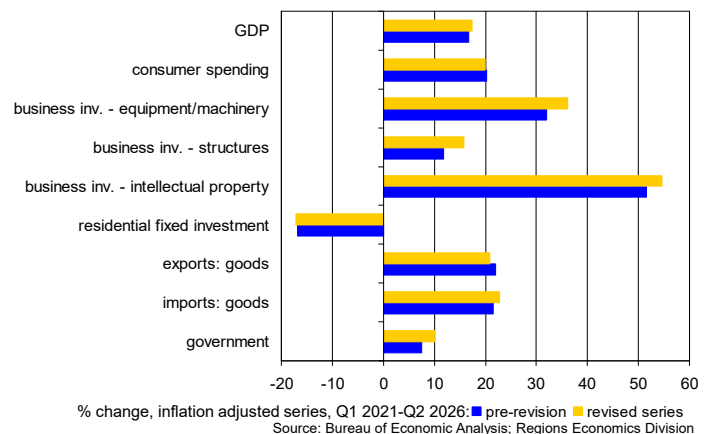
As has become our habit, our October edition focuses on the annual revisions to the data from the National Economic Accounts (NEA). The NEA provide a comprehensive view of U.S. economic activity and are the root source of the BEA's estimates of GDP, personal income, corporate profits, and a host of other national and regional data series. Each year the BEA undertakes revisions to the data from the NEA, which vary in terms of scope and duration; this year's revisions cover the period from Q1 2021 through Q2 2026. For those who don't recall, with last year's revisions you had to look through a magnifying glass and then squint really hard to see the differences between the original and revised data. With this year's revisions, you don't need quite as powerful of a magnifying glass nor do you have to squint quite so hard, and even where the differences in the broad series, such as personal income, may not seem so large, the changes in the component parts are nonetheless revealing. On the whole, the revised data show the U.S. economy, at least most of it, on firmer footing heading into 2H 2026 than previously implied.

in 2025, compared to the prior estimates of 2.8 percent and 2.1 percent, respectively. Again, the upward revisions to more recent growth reflects a mix of more output growth and less of an increase in prices than previously reported. To our point about changes in the details being more revealing than changes in the broader aggregates, the following chart shows how the main components of GDP fared in this year's revisions.



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Business Investment Drives Revisions



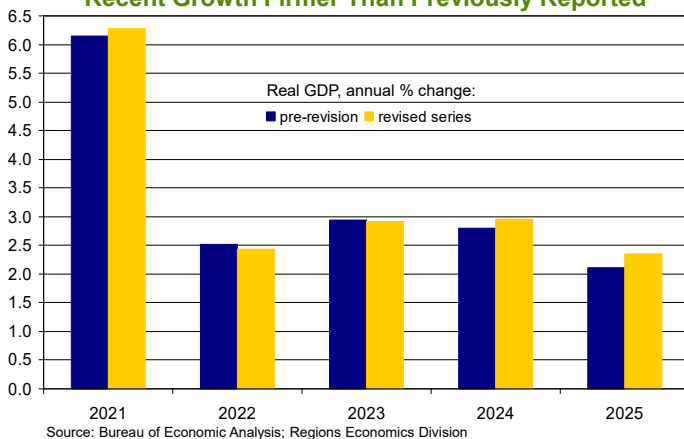
Real business fixed investment grew by more from 2021 through Q2 2026 than previously reported, with larger gains in each of the three main components – structures, equipment and machinery, and intellectual property products. That business spending on structures grew at all may seem surprising given how material of a drag this component has been over more recent quarters. To that point, a modest 0.1 percent increase in Q2 2026 (and we do mean modest, as that is the annualized growth rate) ended a run of four straight quarters of sizable contractions. Recall that the push to increase domestic production of semiconductor chips in the wake of significant disruptions in global supply chains after the onset of the pandemic led to rapid growth in construction of manufacturing facilities here in the states. The burst of plant construction from late-2022, after passage of the "CHIPS and Science Act," through mid-2024 accounts for the vast majority of structures spending over the entire Q1 2021 through Q2 2026 period, even allowing for the steady contraction in structures spending from Q2 2025 through Q1 2026.

The modest increase in structures spending seen in Q2 2026 in part reflects the growing impact of data center construction. Based on the monthly data, that impact should be more visible in the data for Q3 and beyond. Still, aside from chip production and data centers, there has been little support for business investment in structures over the past several years, and that may not change any time soon. The impact of AI related investment, including data



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Recent Growth Firmer Than Previously Reported



The revised data show that, on the whole, real GDP grew by a bit more from Q1 2021 through Q2 2026 than had previously been reported. Over this span, real GDP increased by 17.4 percent, as opposed to the 16.7 percent increase previously reported. The larger net increase in real GDP is pretty evenly split between a slightly larger increase in output and a slightly smaller increase in prices over this span. Slower growth in 2022 and 2023 was more than offset by faster growth in 2024 and 2025, with faster growth in business investment than previously reported the main driver of the upward revision to more recent growth. Real GDP is now shown to have grown by 3.0 percent in 2024 and by 2.3 percent

centers, is also apparent in the data on business investment in equipment and machinery. Adjusted for price changes, outlays in this component of business investment grew by 36.1 percent from Q1 2021 through Q2 2026, compared to the 32.0 percent increase previously reported. Business spending on computer equipment and communications equipment has been notably strong over the past several quarters, reflecting surging AI-related investment, but at the same time growth in business spending on equipment and machinery has become much more broadly based. This to some degree reflects the impact of changes in the corporate tax code enacted into law in the summer of 2025, particularly the provision allowing for immediate expensing of such investment. The higher frequency data on core capital goods orders (i.e., nondefense capital goods excluding aircraft and parts), a very early indicator of the GDP measure of business investment, suggest business spending on equipment and machinery will remain a meaningful support for real GDP growth for several quarters to come.

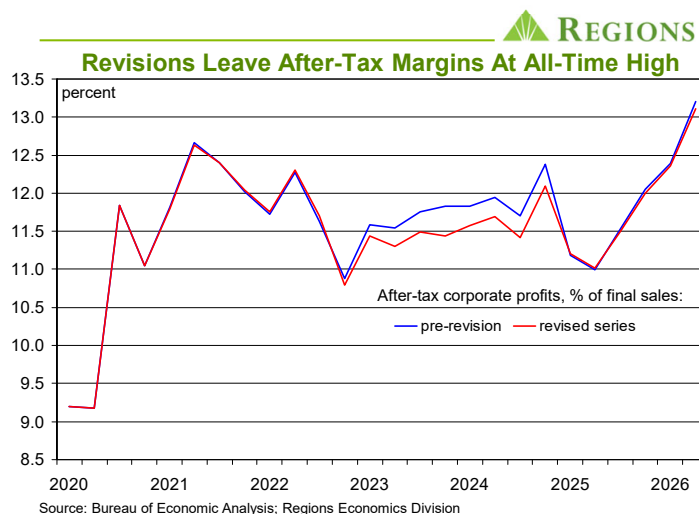
The revised data also show real business investment in intellectual property products, the vast majority of which consists of outlays on computer software and research & development, grew by 54.6 percent from Q1 2021 through Q2 2026, up from the prior estimate of 51.6 percent. Here too one sees the impact of AI-related investment, though it is worth noting that growth in spending on intellectual property products has for some time tended to outpace growth in the two other broad components of total business investment. We've routinely noted that trends in intellectual property product investment tend to lead trends in productivity growth, and consistently strong growth in outlays on intellectual property products presaged the pickup in labor productivity growth that was apparent well before AI came to dominate the discussion.

Another sign of the strength in business investment spending over recent years is the growth in imports of non-automotive capital goods – goods ultimately used by companies in the U.S. in the production of final goods. The revised data show total imports of goods, adjusted for price changes, grew by 22.7 percent from Q1 2021 through Q2 2026, up from the initial estimate of 21.5 percent, with an upward revision to imports of non-automotive capital goods the primary driver.

On the whole, the upward revisions to the various components of business fixed investment and imports of non-automotive capital goods suggest a firmer foundation for overall economic growth over coming quarters than had already been implied in the GDP data. To be sure, the ultimate extent of and timing of the payoff from AI-related investment cannot be known, but the strength in business investment spending is benefiting current real GDP growth while laying the groundwork for faster future growth, a point lost on those who see consumption as the driver of growth as opposed to it being the byproduct of growth.

Healthy corporate balance sheets have been a key support for growth in business investment spending, and that should remain the case over coming quarters. That said, the revised data show growth in corporate profits was a bit slower from Q1 2021 through Q2 2026 than had previously been reported, with the biggest revision seen in profit growth in 2023 and 2024. In contrast, over the past six quarters profit growth has been slightly faster than had previously been reported, part of which reflects the expanded business interest deduction that was part of the changes made to

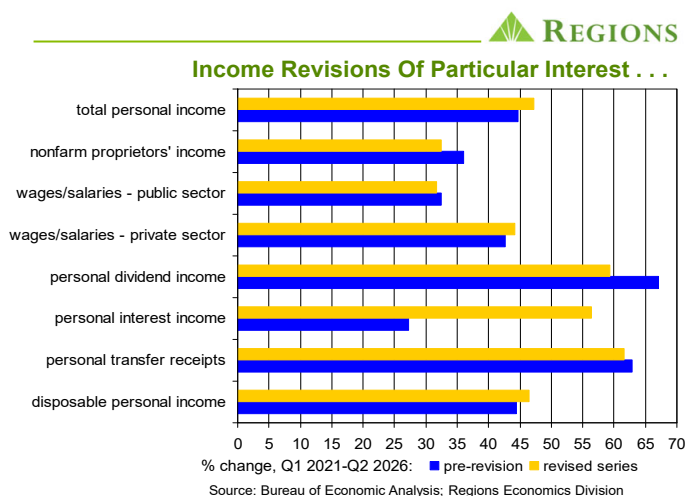
the corporate tax code in the summer of 2026. Either way, the revised data still show after-tax corporate profit margins higher in Q2 2026 than at any point in the life of the data that go back to the 1940s, while before-tax margins were wider than at any point since Q1 1951. Even if, as we suspect, margins will begin to narrow over coming quarters, they will nonetheless remain elevated relative to historical norms which, in turn, suggests corporate balance sheets will remain healthy.



One area in which the revisions to the recent historical GDP data were not kind is residential fixed investment, now shown to have contracted by 17.1 percent from Q1 2021 through Q2 2026 rather than by 16.9 percent as previously reported. The downward revision would have been harsher had it not been for single family residential investment expanding at a faster pace in Q2 2026 than had previously been reported. That, however, won't last for long as single family construction slipped in Q3 2026 and we look for it to slip further over the final quarter of this year. This reflects the extent to which higher mortgage interest rates have made it even more difficult for builders to pare down unwanted inventories of spec homes for sale, leading them to pull back further on new single family starts. Even if mortgage rates level off or even settle back some after this current run-up, the floor under them will be higher than had been the case, and if we're correct on this point then affordability constraints will continue to weigh on demand for home purchases. It is also worth noting that multi-family residential investment has contracted in each of the past three quarters, as digesting a wave of completions made rent growth more challenging. As such, it is unclear whether, or to what extent, growth in the multi-family segment will offset weakness in the single family segment. On the whole, we look for residential fixed investment to be a drag on real GDP growth through 2027.

The BEA's annual revisions also cover the data on personal income, and like real GDP the revised data show faster growth in total personal income from Q1 2021 through Q2 2026 than previously reported. Over this span, total personal income grew by 47.2 percent rather than by 44.7 percent as shown prior to the revisions with mixed results amongst the various components. To help put that growth in nominal personal income in perspective, over that same span real disposable personal income, or, after-tax personal income adjusted for price changes, grew by 16.4 percent, a bit

better than the 14.5 percent gain originally reported. But, the yawning gap between growth in nominal after-tax income (44.5 percent over this span) and growth in real after-tax income (16.4 percent) reflects the extent to which prices rose during this time. Obviously, the gap between the two series on a historical basis is much narrower than that seen over recent years.

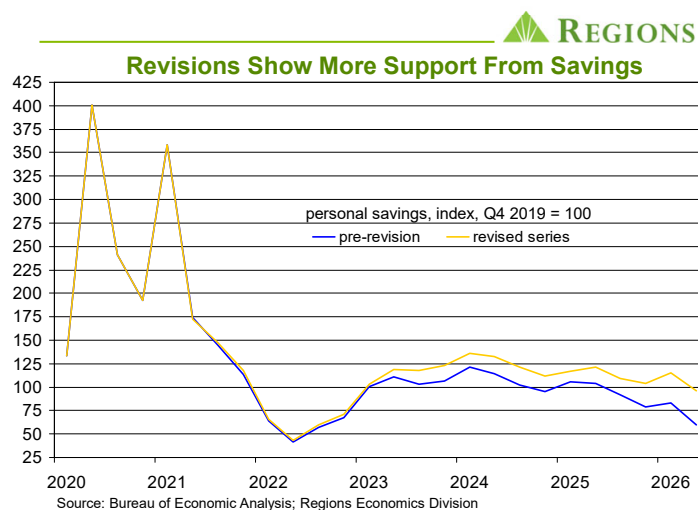


The first thing that jumps out from the above chart is the sizable upward revision to interest income earned from Q1 2021 through Q2 2026. Interest income is now reported to have grown by 56.4 percent over this period, compared to the prior estimate of 27.3 percent, and what is interesting is that from mid-2022 on growth in interest income was faster in almost every single quarter through mid-2026 than had previously been reported. This recent run of robust growth is in stark contrast to what was an extended period of middling returns on saving, and though perhaps not at the pace seen over the past several quarters, higher interest rates should sustain growth in interest income over coming quarters. The upward revision to interest income was softened a bit by a downward revision to dividend income, now reported to have increased by 59.4 percent from Q1 2021 through Q2 2026 rather than by 67.0 percent as previously reported. That said, save for transfer payments, dividend income grew by more over this span than any other component of total personal income, but it helps to recall that a sizable portion of transfer payments does not actually reflect cash in the hands of transfer recipients.

Growth in aggregate labor earnings was revised higher, reflecting faster growth in private sector earnings, up by 44.2 percent from Q1 2021 through Q2 2026, more than offsetting slower growth in public sector earnings, up 31.8 percent, than had previously been reported. It's worth noting that growth in aggregate labor earnings not only outpaced inflation over the five-and-a-half year period covered by the revisions but continues to do so on a monthly and quarterly basis, even with earnings growth having slowed a bit over the past few quarters. We'll also note that the BEA's measure of labor earnings is a much more reliable guide than the measure culled from the BLS's monthly employment reports, as the BEA's measure is tethered to the Quarterly Census of Employment and Wages (QCEW) on an ongoing basis as opposed to the BLS's once-a-year benchmarking to the Q1 QCEW data each year.

Finally, we'll note that growth in nonfarm proprietors' income, a proxy for small business profits, over the Q1 2021 through Q2

2026 period was revised downward. Nonfarm proprietors' income is now reported to have increased by 32.4 percent over this period compared to the prior estimate of 36.0 percent. This is less than the growth in corporate profits seen over this same span, and to some extent the gap in profit growth reflects small businesses tending to have less negotiating power with suppliers and often less pricing power with customers than is the case with larger corporations. In an environment in which input costs and, more recently, shipping costs have been persistently advancing, small businesses often have to absorb more of these cost increases than is the case with larger corporations.

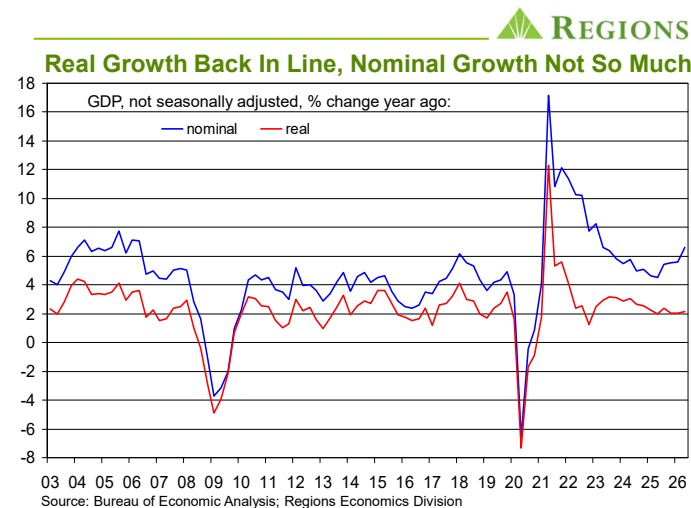


One element of the revised data that has gone largely unnoticed is that personal savings have held up much better than had been reported previously, even if the scale of the above chart makes that a bit difficult to perceive. Note that our point of reference here is Q4 2019, i.e., the last quarter before sizable pandemic-related transfers to the household sector significantly juiced personal income, spending, and saving. Recall that Q2 2020 and Q1 2021 are the quarters in which most of the three rounds of Economic Impact Payments were dispersed, as can be seen in the spikes in personal savings.

It is not surprising that the spike in savings dissipated, though that process was hastened by the sharp acceleration in inflation in 2021. After having been little changed between 2023 and mid-2025, the pre-revision data showed savings falling off sharply between mid-2025 and mid-2026, to the point that the level of saving was 40.7 percent lower than the level as of Q4 2019. As of Q2 2026, the personal saving rate (as a percentage of after-tax income) was reported to be 2.8 percent which, with the exception of Q2 2022, was the lowest saving rate since Q1 2008. This led to concerns that consumers would pull back on spending in an attempt to replenish savings, with discretionary spending more likely to be on the chopping block in light of the latest round of energy price increases.

The revised data, however, call that narrative into question, with the level of saving now shown to be just four percent below the level of Q4 2019. At the same time, the personal saving rate as of Q2 2026 is now reported to be 4.4 percent which, while well below the rate as of Q4 2019 (6.7 percent), nonetheless suggests that consumers may feel less compelled to pull back on spending due

to concerns over inadequate savings. Combine a deeper pool of savings with growth in labor earnings continuing to outrun inflation and Q2 2026 seeing the largest quarterly increase in household net worth on record, and it suggests consumers are far less stretched as many had thought to be the case. To be sure, absent relief from elevated inflation and higher interest rates, the saving rate could drift lower and there could come a time when consumers feel compelled to pull in the reins on spending. The revised data, however, show a higher starting point for saving, which would figure to push any such pullback in spending further out into the future than had previously seemed likely.



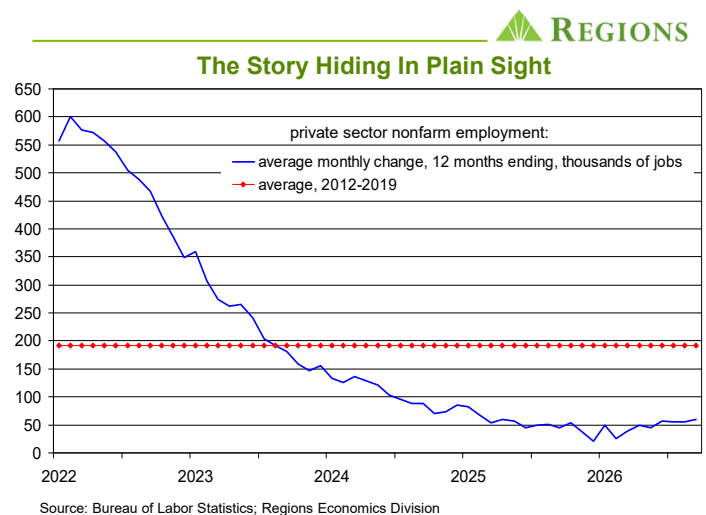
We'll wrap this discussion by showing a chart we used in last month's edition, the difference being this month's version shows the revised GDP data. The bigger picture, however, remains the same regardless of which set of data we show. While real GDP growth has settled back into the trend pace seen over the course of the pre-pandemic expansion, nominal GDP growth not only remains well above the pre-pandemic trend rate but has actually accelerated over recent quarters, reflecting the acceleration in the rate at which prices have been rising. Though expectations of faster real GDP growth down the line brought about by current business investment spending may be playing a role, the recent run-up in market interest rates seems far more a function of the acceleration in nominal GDP growth amid trend-like real growth, a combination which is keeping the FOMC in play.

More Noise Leaves Stable Trend Firmly Intact

Total nonfarm payrolls rose by 29,000 jobs in September, well short of the consensus forecast of 95,000 jobs and even below our forecast of 46,000 jobs. Private sector payrolls rose by 46,000 jobs, short of the 68,000 jobs our forecast anticipated, and public sector payrolls fell by 17,000 jobs, largely in line with our forecast. At the same time, prior estimates of job growth in July and August were revised down by a net 60,000 jobs for the two-month period, with private sector payrolls more than entirely accounting for the markdown as the revised data show 81,000 fewer private sector jobs added than previously reported. After having risen by one-tenth of an hour in August, the average length of the private sector

workforce held steady at 34.4 hours in September. Average hourly earnings rose by just 0.1 percent, leaving them up 3.0 percent year-on-year, while aggregate private sector wage and salary earnings rose by 0.2 percent, translating into an over-the-year increase of 4.2 percent. Thanks to a second straight monthly increase in the labor force participation rate, the unemployment rate ticked up to 4.2 percent, while the broader U6 measure, which also accounts for underemployment, fell to 7.6 percent.

We'll leave it for others to ruminate on what these headline metrics mean for the labor market, the broader economy, and the FOMC. Instead of that, we'll offer two numbers that we speak volumes about, in turn, the September employment report and the labor market. The first number is 53.1 percent, which was the initial collection rate for the September establishment survey, a ridiculously low rate even in an era of depressed survey response rates. This could be a function of a late Labor Day – September 7 this year – and an early end to the September survey period, but other instances of Labor Day falling on September 7 did not see survey response rates out of line with typical response rates. This year, however, saw the lowest September response rate since 1987, and a rate this low calls into question the reliability of the initial estimates of nonfarm employment, hours, and earnings in September. Not that we expect coming revisions to show a monster increase in nonfarm payrolls, but the revisions could be larger than would have been the case with a higher response rate.



The second number we'll toss out is 60,167, which over the twelve months ending with September is the average monthly increase in not seasonally adjusted private sector payrolls. As seen in the above chart, this is right in line with the trend rate that has prevailed since early 2025. This is, to us, the most relevant data point that can be pulled from the September employment report. While the estimates of monthly job growth on a seasonally adjusted basis have been all over the map, the underlying trend rate of job growth in the not seasonally adjusted data has been notably stable. Though well lower than what we were accustomed to over the years prior to the pandemic, this trend rate is nonetheless more than adequate to keep the unemployment rate in check given what is much weaker labor supply growth. This remains our focus regardless of how many others opt to spin new narratives each month based on swings in the headline metrics.

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Q1 '26 (a)	Q2 '26 (a)	Q3 '26 (f)	Q4 '26 (f)	Q1 '27 (f)	Q2 '27 (f)	Q3 '27 (f)	Q4 '27 (f)		2023 (a)	2024 (a)	2025 (f)	2026 (f)	2027 (f)
2.5	2.2	3.4	2.3	2.1	2.4	2.5	2.6	Real GDP ¹	2.9	3.0	2.3	2.4	2.5
0.7	3.8	3.2	2.0	1.9	2.3	2.5	2.6	Real Personal Consumption ¹	2.3	2.9	2.6	2.4	2.4
9.9	9.0	10.4	9.0	8.8	7.5	7.2	6.5	Real Business Fixed Investment ¹	7.7	3.9	5.4	7.4	8.5
15.5	13.4	15.3	13.0	13.0	10.9	10.0	8.4	Equipment ¹	4.9	3.3	8.8	12.0	12.2
15.6	9.2	7.2	6.9	6.9	6.9	6.9	6.9	Intellectual Property and Software ¹	5.6	4.6	6.8	9.4	7.1
-9.4	0.1	6.9	4.7	3.4	0.5	0.5	0.0	Structures ¹	16.1	3.8	-2.2	-4.5	2.7
-7.6	2.8	3.7	-2.1	-3.7	-2.3	-2.7	-0.9	Real Residential Fixed Investment ¹	-8.1	3.2	-2.7	-2.5	-1.5
4.7	-0.1	0.6	2.1	0.3	0.8	0.9	1.5	Real Government Expenditures ¹	4.5	4.5	1.6	0.6	0.9
-1,019.5	-1,099.3	-1,318.8	-1,340.0	-1,380.2	-1,407.2	-1,437.3	-1,465.3	Real Net Exports ²	-910.4	-1,024.3	-1,100.6	-1,194.4	-1,422.5
945	902	887	853	844	847	850	855	Single Family Housing Starts, ths. of units ³	947	1,015	941	897	849
473	443	415	426	404	397	394	391	Multi-Family Housing Starts, ths. of units ³	474	355	415	439	396
0.7	1.4	1.8	1.7	1.1	0.3	-0.3	-0.2	CoreLogic House Price Index ⁵	3.9	4.3	1.9	1.4	0.2
15.5	16.5	16.2	16.2	16.2	16.3	16.3	16.4	Vehicle Sales, millions of units ³	15.5	15.9	16.3	16.1	16.3
4.3	4.3	4.1	4.2	4.2	4.2	4.1	4.1	Unemployment Rate, % ⁴	3.6	4.0	4.3	4.2	4.1
0.2	0.2	0.3	0.5	0.5	0.5	0.5	0.6	Non-Farm Employment ⁵	2.2	1.2	0.5	0.3	0.5
2.4	-0.2	2.3	0.6	4.1	2.7	2.6	2.8	Real Disposable Personal Income ¹	5.9	3.2	1.6	1.3	2.4
3.0	4.0	3.8	3.5	3.3	2.3	2.2	2.1	GDP Price Deflator ⁵	3.8	2.6	2.6	3.6	2.5
3.0	3.6	3.5	3.7	3.2	2.4	2.4	2.0	PCE Deflator ⁵	3.9	2.6	2.6	3.4	2.5
2.7	3.8	3.4	3.8	3.5	2.4	2.6	2.0	Consumer Price Index ⁵	4.1	3.0	2.7	3.4	2.6
3.0	3.1	3.0	3.2	2.9	2.7	2.7	2.5	Core PCE Deflator ⁵	4.2	2.9	2.8	3.1	2.7
2.5	2.7	2.5	2.8	3.0	3.1	3.2	2.9	Core Consumer Price Index ⁵	4.8	3.4	2.9	2.6	3.0
3.63	3.63	3.67	3.94	4.13	4.13	4.08	3.81	Fed Funds Target Rate Range Mid-Point, % ⁴	5.07	5.19	4.25	3.71	4.04
4.20	4.42	4.76	5.21	5.11	5.01	4.95	4.92	10-Year Treasury Note Yield, % ⁴	3.96	4.21	4.29	4.65	5.00
6.11	6.41	6.68	7.19	7.09	7.00	6.92	6.87	30-Year Fixed Mortgage, % ⁴	6.81	6.72	6.60	6.60	6.97
-2.7	-3.0	-3.2	-3.3	-3.3	-3.2	-3.3	-3.3	Current Account, % of GDP	-3.3	-4.1	-3.8	-3.1	-3.3

a = actual; f = forecast; p = preliminary

Notes: 1 - annualized percentage change 2 - chained 2017 \$ billions 3 - annualized rate 4 - quarterly average 5 - year-over-year percentage change

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