

NEW ZEALAND
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Manatū Aorere

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US: Economic Update

MARKET INTELLIGENCE REPORT

Report

Solid Growth in 2026 Underpinned by Consumer Demand and AI Investment

The US economy has continued its solid post pandemic growth, with an annualised GDP growth rate of 2.35% in the first half of 2026 year-on-year, according to data released by the Bureau of Economic Affairs (BEA) on 30 September 2026. However, this has dropped from annualised growth of over 2.5% in the first quarter of 2026. Nominal GDP growth (before adjustments for inflation) was an annualised 7.0% in the first half of 2026, reflecting both strong persistent demand and inflation in the US economy.

Growth has been driven by strong consumer demand, which rose at an annualised 3.8% in the June quarter, and the continuation of significant investment in AI infrastructure and equipment. Non-residential business investment increased 9% in the second quarter, highlighted by 27% growth in industrial equipment and a 24.6% growth in transport equipment. Total AI investment (including both data centres and equipment) reached US$450b in the year to June and is now the single largest category of US investment, passing single family homes.

Strong performance by companies involved in the AI boom has helped the US stock market outperform most global peers. Three of the four major US stock indices have seen double digit percentage growth in the year to date.

Strong consumer demand and business investment is likely helping keep unemployment relatively low and the labour market stable. Unemployment was 4.2% in the latest figures, low by historical standards, and a similar rate to the past two years. Hiring remains somewhat constrained but US Federal Reserve Chair Warsh said recently that "anyone who wants a job, can find a job." That said, wages have not kept up with inflation, with the latest employment cost index data showing average hourly earnings fell 0.3% in the year to August 2026.

Inflationary pressures have persisted, in part due to elevated energy prices arising from the Iran conflict. Personal consumption expenditure (**PCE**) inflation was 5.0% year on year, up from an annualised 4.6% in the year to March. Core PCE, which excludes food and energy costs, was 3.3% in the same period, down slightly from 3.9% in Q1. Businesses are also facing rising costs. The producer price index (PPI), which measures inflation for businesses, increased 5.4 % in the year to July. These price pressures

prompted the Federal Reserve to raise interest rates on 16 September, with the market pricing in at least one further hike before the end of the year.

Recent analysis from the New York Federal Reserve has suggested that tariffs have contributed to this inflation. The NY Fed found that tariffs had increased consumer price inflation for goods by 2.9% in the year to February 2026. The analysis found that goods prices would otherwise have been -0.9% and provided a net reduction to headline inflation. Since early 2025, the average US tariff rate has risen from 2.68% to 11%, according to analysis from the Yale Budget Lab.

The US, which continues to be the world's largest economy by quite some margin, remains a key and dynamic market for New Zealand goods and services exporters. Strong business investment, focused in AI and related sectors, and resilient consumer spending have helped the US economy continue to expand. The US remains a prime location for innovation and R&D. Overall, US demand for high-quality New Zealand goods and services continues to grow, despite ongoing volatility both in the global economy and in respect of US trade policy.

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