## United States

# Sound growth and disinflation as the main challenge

**The US economy is expected to maintain solid growth throughout 2027, supported by robust business investment, resilient consumption and strong productivity gains. A more restrictive Fed policy, relatively high long-term interest rates and a balanced labour market will help moderate underlying inflation in 2027.**

**Elena Nieto Vega**

**The US economy continues to show resilience.** Despite higher interest rates, geopolitical uncertainty, tariffs and elevated energy prices, private domestic demand has expanded strongly. Growth is expected to stay solid through 2026 and 2027. Business investment will continue to be a key pillar of expansion, largely driven by the artificial intelligence (AI) buildout, with data centres and related technological upgrades supporting high-tech capital expenditure. Yet investment is extending beyond AI, with buoyant activity across several sectors. Businesses are increasingly accepting uncertainty as part of the new normal. Healthy credit flows and strong corporate earnings are supporting momentum.

Productivity growth has strengthened, largely reflecting pre-AI investment in automation, leaner operating models and efficiency gains. The productivity benefits from AI are likely to materialise gradually as adoption broadens, providing an additional tailwind to productivity and potential growth. Consumption, meanwhile, remains resilient. Despite lower real incomes, low unemployment, limited layoffs and wealth gains among asset-owning households continue to support spending. Looking ahead, moderating inflation and a stable labour market should support real household incomes and help sustain private consumption growth.

**Labour market conditions remain stable.** The labour market has settled into a "low-hire, low-fire" environment, with firms cautious about adding headcount while layoffs are still limited, as healthy demand and earnings reduce the need for aggressive restructuring. Crucially, lower hiring has coincided with slower labour supply growth, reflecting a sharp drop in immigration and an ageing population. Labour demand is therefore broadly keeping pace with workforce growth, resulting in a relatively stable equilibrium that we expect to persist through 2026 and 2027.

**Inflation is now the main macroeconomic concern.** Headline and core PCE inflation have remained above the Fed's 2% target for more than five years. Adverse supply shocks explain part of the recent acceleration. However, this does not necessarily imply that its effects will prove transitory. Prices ultimately reflect the interaction between

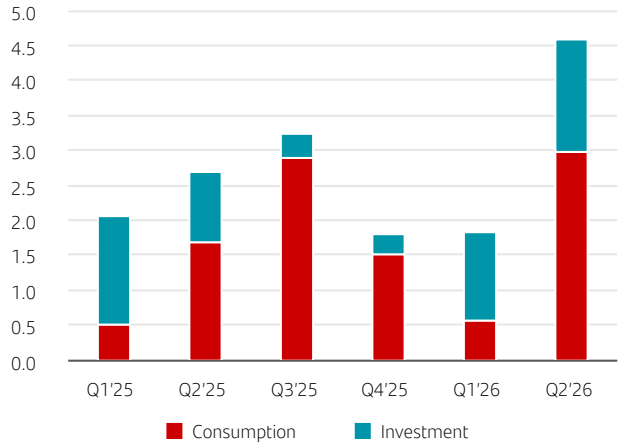
# United States

supply and demand: a resilient economy can facilitate the propagation of supply shocks, while strong AI-related investment is generating price pressures in some goods categories. The longer inflation remains above target, the greater the risk that firms' price-setting behaviour and inflation expectations adjust accordingly.

**Against this backdrop, the Fed has turned more hawkish.** After raising rates in September, policymakers signalled that insufficient disinflation could warrant further tightening. Underlying inflation is easing, but not as quickly as desired. We therefore expect additional tightening in 2026. Long-term rates are likely to stay relatively high, reflecting solid growth, robust corporate and Treasury issuance, and little prospect of fiscal consolidation. This should complement the Fed's restrictive stance, limiting the need for further policy-rate increases in 2027. With a non-overheating labour market and continued productivity gains, underlying inflation should moderate towards the 2% target in 2027.

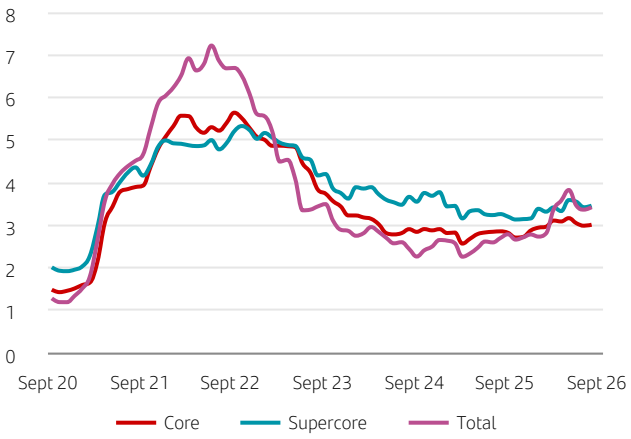
**However, considerable uncertainty persists.** Tariffs, energy prices and geopolitical disruptions could generate renewed price pressures, prolonging the period of above-target inflation. At the same time, questions linger over the scale, duration and eventual returns of the AI investment boom.

**US: Real final sales to private domestic purchasers**
(%, q/q annualised)




Sources: LSEG, BEA and Santander Research.

**US: PCE inflation has remained above the 2% target**
(%, y/y)




Source: LSEG.

## Macroeconomic forecasts

| | 2026e | 2027e | 2028e |
|---|---|---|---|
| GDP growth (%) | 2.3 | 2.2 | 2.0 |
| Unemployment rate | 4.2 | 4.2 | 4.2 |
| CPI inflation | 3.5 | 2.5 | 2.1 |

Source: Santander Research. Annual average.



United States In focus

# Artificial intelligence buildout and its impact on the economy



**Artificial intelligence (AI) is fast emerging as a new general-purpose technology that could significantly boost productivity and profoundly transform production processes and service provision. As in previous technological transitions, this breakthrough has triggered an investment boom in the United States, already raising economic activity. It is creating opportunities but also potential challenges.**

## The AI transition in the US: where do we stand?

The sequence typically associated with general-purpose technologies is as follows. First, technological capabilities improve and the cost of specific applications declines. That is followed by broad-based adoption and investment by firms. Finally, measurable aggregate productivity gains and labour market effects emerge. Current evidence suggests that the AI transition is still in the buildout phase, with capabilities advancing rapidly, investment booming and adoption increasing, albeit unevenly. There is not yet compelling evidence of substantial aggregate productivity gains or broad labour market effects[1].

AI is driving a wave of physical capital formation in the US that is unusual in both scale and composition. Training and deploying modern AI systems requires large quantities of specialised hardware, electricity and purpose-built facilities. The associated investment encompasses not only buildings, but also substations, transmission upgrades, cooling systems and substantial volumes of specialised IT equipment. Hyperscalers[2] are set to invest more than 700 billion US dollars in capital expenditure in 2026 alone. This buildout resembles previous infrastructure booms (such as those associated with the railways, electrification and telecommunications) more closely than a conventional increase in technology-sector capital expenditure[3].

In the current phase of the AI transition, infrastructure investment is being mainly led by AI-producing firms. As adoption becomes more widespread, investment is likely to increasingly shift towards AI-using firms across the broader economy.

[1] Soto, Paul E., Mason Thieu, and Jeffrey S. Allen (2026), 'The AI Buildout and the Economy: Publicly Available Data to Assess AI's Impact', FEDS Notes, Washington: Board of Governors of the Federal Reserve System, July 17, 2026.
[2] Including Microsoft, Amazon, Alphabet, Meta and Oracle.
[3] BIS (June 2026), 'Annual Economic report'; and Stijn Van Nieuwerburgh (2026), 'Financing the AI Buildout'.



## United States

In focus

### Impact on economic growth so far

Quantifying the precise contribution of the AI investment boom to recent gross domestic product (GDP) growth is challenging. Both the capital expenditure of major technology firms and the national accounts investment categories most closely associated with AI spending (including computers and peripheral equipment and software) may also contain substantial non-AI expenditure. Moreover, the equipment supporting the buildout has a high, but difficult-to-estimate, import content, which does not contribute to GDP. Available estimates suggest that AI-related investment may have added between 0.5 and 1.0 percentage points, on average, to annualised quarterly US GDP growth since 2025[4]. This would correspond to roughly one-quarter to one-half of total growth over this period.

Beyond the direct contribution of investment, AI may also have supported economic activity through other channels. AI-related optimism has boosted equity valuations, potentially supporting household consumption through wealth effects. However, the concentration of capital flows towards AI-related firms may be crowding out investment elsewhere, while the surge in bond issuance by Big Tech firms may be exerting upward pressure on US long-term yields.

### Opposing forces affecting inflation

The effects of AI on inflation are less straightforward, as the technology is likely to affect both aggregate supply and demand. On the supply side, AI could generate significant productivity gains, enabling firms to increase output at a lower cost. On the demand side, stronger AI-related investment may be raising the prices of key inputs, including semiconductors, other high-technology equipment and software. In addition, optimism about AI may boost investment and consumption before the expected productivity gains fully materialise.

The timing and relative strength of these effects are therefore critical to assessing the inflation outlook. If investment and consumption strengthen before supply-side benefits emerge, AI could increase inflationary pressures. Conversely, if productivity gains reduce production costs earlier, the technology may have a disinflationary impact. During the transition, however, firms must invest in organisational change, data infrastructure and systems integration, which may temporarily raise production costs even as the technological frontier continues to expand.

### Reshaping the financial system

Artificial intelligence could make the financial system more productive, innovative and efficient by automating routine tasks, enhancing analytics, modernising legacy systems, strengthening cybersecurity and accelerating financial processes. It could also broaden access to credit and help financial institutions to allocate capital more

[4] Soto, Paul E., Mason Thieu, and Jeffrey S. Allen (2026), 'The AI Buildout and the Economy: Publicly Available Data to Assess AI's Impact', FEDS Notes, Washington: Board of Governors of the Federal Reserve System, July 17, 2026; and Rubinton, Hannah and Bontu Ankit Patro (January 2026), 'Tracking AI's Contribution to GDP Growth', Federal Reserve Bank of St. Louis.

effectively. These efficiency gains may support additional lending, investment and economic growth.

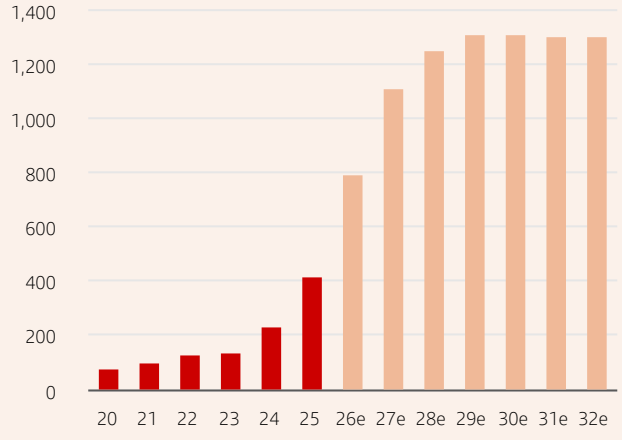
At the same time, innovation may entail a range of new challenges, including vulnerabilities associated with AI-driven algorithmic trading, sectoral disruption and the growing use of debt markets to finance AI infrastructure[5]. Until recently, the hyperscalers investing in AI infrastructure financed capital expenditure largely through retained earnings. However, rising funding requirements are prompting a shift towards debt markets.

Although many of the largest investors are also highly creditworthy borrowers, the increasing use of leverage to finance investment in an emerging technology carries risks, particularly if expected returns fail to materialise or prove lower than anticipated.

## Looking ahead

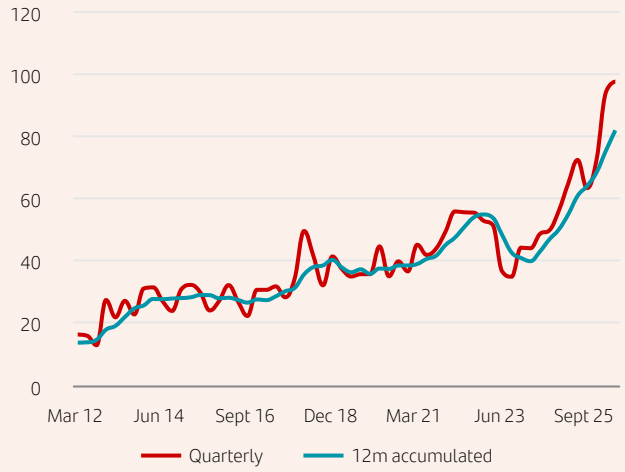
AI has the potential to reshape the global economy by boosting productivity and innovation and expanding productive capacity. At the same time, the uncertainty and adjustment costs associated with the transition call for flexible policies and close monitoring of business impacts and macroeconomic and financial challenges. A broad range of financing channels will ultimately be required to meet the funding needs associated with the AI buildout in the coming years.

**Hyperscaler Capex**
(USD bn)




Source: Bloomberg Intelligence.

**Capex share of operating cash flow for hyperscalers***
(%)




* Includes Amazon, Google, Meta, Microsoft and Oracle.
Sources: LSEG and Santander Research.

[5] Lisa Cook (May 2026), 'The Opportunities and Risks AI Presents for the Economy and Financial System', Remarks at Stanford Institute for Economic Policy Research.

## Euro Area

# From resilience to transformation

**Europe has proved resilient in the face of a new energy shock, but increasing its growth potential will require a sustained investment cycle that delivers a lasting improvement in productivity and competitiveness. In 2027, investment could accelerate thanks to fiscal support, but this push needs to be complemented by stronger private investment.**

**Concepción Sanz Gómez**

**The euro area exhibited an unexpected degree of resilience in 2026.** We expect gross domestic product (GDP) to grow by 1.0% in 2026, showing a notable capacity to adapt to higher energy costs and uncertainty arising from the Middle East conflict.

This resilience reflects several factors. First, the economy is less dependent on gas and has lower energy consumption than at the beginning of the 2022 crisis. Second, households have drawn on part of their savings to cushion the impact on disposable income and sustain consumption. Finally, domestic demand is benefiting from higher defence spending, the expansionary German fiscal stance and the global increase in technology investment, including artificial intelligence (AI)-related investment.

Inflation has risen, but the impact on underlying inflation remains limited. Wage growth has moderated and, so far, there are no clear signs of second-round effects.

**We expect stronger growth in 2027, but the challenges are also greater.** We expect euro-area GDP to grow by 1.4% in 2027. The main boost is expected to come from a gradual recovery in investment, supported by defence spending, German infrastructure plans and investment in digitalisation and AI. The labour market will continue to provide stability for households. We expect employment to grow and the unemployment rate to stay at historically low levels.

However, growth could continue to be uneven across countries and sectors. Germany is playing an increasingly important role, supported by higher defence and infrastructure spending, while other economies face tighter fiscal constraints. At the same time, stronger Chinese competition is putting further pressure on the euro area's external competitiveness. In addition, part of the new spending on defence and technology will translate into imports, limiting its direct impact on European GDP.

**Inflation will remain a key risk in 2027.** We expect inflation to moderate, but probably stay above the European Central Bank (ECB)'s 2% target for most of the year, with risks tilted to the upside. The main concern is that persistently high energy prices raise business costs and progressively feed through to wages and broader goods and services prices. Against this backdrop, we expect the ECB tightening cycle to extend into 2027.