

The Big Read **US economy**

America's gravity-defying economy

The AI boom is helping to sustain growth but demand is coming from the richest consumers who own stocks while poorer Americans are being squeezed

Claire Jones and **Sam Fleming** in Washington

Published OCT 17 2025

Members of the global financial elite flying into Dulles Airport for IMF meetings this week touched down in a state that has seen one of America's biggest construction frenzies.

North Virginia's "data centre alley" is symbolic of an AI-fuelled tech investment and stock market boom that has helped the US defy grim predictions early this year of a sharp slowdown sparked by Donald Trump's trade war.

In the spring, the IMF was among the institutions grimly warning of recession risks facing the US economy. Now Kristalina Georgieva, the fund's managing director, is striking a different tone.

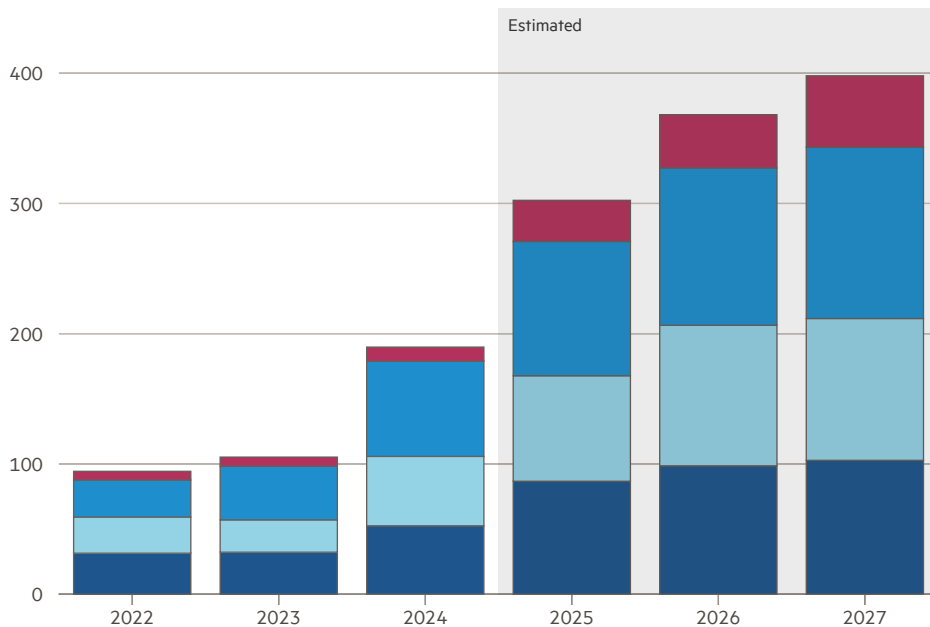
"The AI investment boom is bringing incredible optimism — mostly concentrated in the United States," she said on Thursday.

Trade tariffs have not been the only headwind — the US economy is also dealing with a downturn in the labour market, a draconian clampdown on immigration and now a government shutdown. But at the heart of the economy's robust performance has been consumers who have continued to spend.

Capital expenditure among large-scale AI firms is expected to double between 2024 and 2027

Capital expenditures (\$bn)

Google Amazon Microsoft Oracle



Source: Barclays

FINANCIAL TIMES

The critical driver, say economists, has been the positive wealth effect of soaring stock market valuations, which has buoyed spending among those who are asset-rich.

According to Pierre-Olivier Gourinchas, the IMF's chief economist: "Valuations are very high and this is generating wealth gains for consumers."

The question is how sustainable America's gravity-defying expansion will prove to be.

Economists speak of a two-speed economy, as spending by rich households is buoyed by soaring equity values while lower-income individuals find their spending power eroded by above-target inflation and lower wage growth.

"On the surface, the economy looks resilient," says Isabelle Mateos y Lago, chief economist at BNP Paribas. "But underneath, there's still a good deal to worry about . . . People are aware we could see a shock at any time that would make the resilience unravel."

Some compare the stock market surge with the dotcom boom of the late 1990s, fuelling fears of a punishing reversal. Markets could easily get spooked by a renewed outbreak of trade hostilities, which continued to simmer during this week's annual meetings in Washington.

"Asset prices are very high and credit spreads are very low," Jamie Dimon, chair and chief executive of JPMorgan Chase, told an Institute of International Finance event in Washington on Thursday. "I look at that and I'd feel more comfortable if that were not true."

"The market thinks everything is going to be fine," Dimon added. "I'm not quite so sure of that."

The optimism surrounding the US economy was a stark contrast to the alarm that greeted delegates at the IMF-World Bank spring meetings.

Those gatherings were dominated by global shock emanating from Trump's "liberation day" tariff package, as well as the unfolding saga of reversals and U-turns that came in its wake.

In April, the IMF was putting the risks of a US recession at two in five, as it downgraded growth forecasts. "The membership is anxious," said Georgieva at the time.

This week the IMF upgraded its US growth forecasts, predicting an expansion of 2 per cent in 2025 and 2.1 per cent in 2026 — slower than in 2024 but still the fastest pace in the G7.

Part of the strength can be explained by tariffs that have settled at a lower effective level than was initially feared, with the US trade-weighted tariff rate now at 17.5 per cent, as against 23 per cent in April.



town Manhattan this month. The surge in equity prices means the richest Americans, who tend to own far more stocks than everyone else, are helping to prop up consumption © Spencer Platt/Getty Images

Growth has been enhanced by frontloading of spending and investment by individuals and firms aiming to get ahead of tariffs being implemented. Companies have also proved unexpectedly adaptable as they retool their supply chains and absorb extra costs.

As a result, GDP growth in the third quarter is now expected to hit an annualised rate of 3.9 per cent, according to the Atlanta Fed, sustaining the pace set in the second quarter.

Analysts say the most striking feature of the economy's performance has been the robust state of the US consumer — or at least an economically powerful subset of the population.

The AI boom is not just fuelling eye-popping levels of investment in building data centres: it has also helped send US equities to multiple record highs, based on confidence in the technology's capacity to boost productivity and growth.

A basket of [30 AI-connected stocks](#) now accounts for 43 per cent of the total market cap of the benchmark S&P 500 equity index, according to JPMorgan. The increase in value of these stocks provided US households with \$5tn in extra wealth over the past year alone.

“There are two separate effects — one is the direct investment spending, that's adding about half a percentage point of GDP,” says Marc Sumerlin, of Evenflow Macro, a consultancy. “And then you have the stock market.”

Against this backdrop, some analysts are beginning to question why the Federal Reserve has been easing interest rates. The US labour market has been relatively weak, prompting arguments for lower borrowing costs.

Michael Strain, at the American Enterprise Institute think-tank, says the rate reductions are misguided given the robust state of consumer spending and signs of ongoing underlying inflationary pressure.

“These wealth effects are real and will persist into 2026 and that will boost aggregate spending,” he says. There is, he adds, a “good deal of inflationary pressure”.

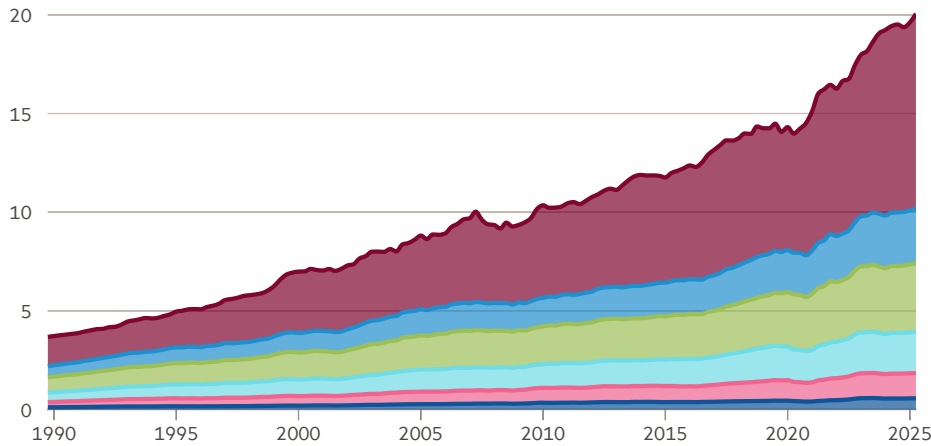
America's consumer spending story may be impressive, but it is a deeply lopsided one. The surge in equity prices means that the richest Americans, who tend to own far more stocks than everyone else, are helping to prop up consumption.

Research by Mark Zandi, an economist at Moody's, shows the top 10 per cent of the population by income are now responsible for around half of all US consumption.

The top 10 per cent of earners account for half of US personal spending

Personal outlays, annualised (\$tn)
By income percentile

0-20% 20%-40% 40%-60% 60%-80% 80%-90% 90%-100%



Source: Federal Reserve Board, BEA, Census, Moody's Analytics

FINANCIAL TIMES

He estimates the so-called “wealth effect” at 5 cents — meaning that for every dollar Americans gain on the stock market, they spend a nickel.

“It’s fortuitous that the AI boom has happened over the past year — it’s helped to cushion the blow from the tariff policies and Trump’s crackdown on immigration. It’s a key reason why the economy hasn’t gone into recession,” he says.

All this has been particularly good news for companies selling luxury goods and services. Delta Air Lines said last week that it expected revenue from the sales of its premium products, such as first-class tickets, would exceed coach cabin tickets next year.

Mercedes-Benz reported last week that retail sales of its G-Wagon, the price of which starts at \$148,250, had risen by 41 per cent over the year to date, compared with a [6 per cent rise](#) in the company’s US sales.

But the worst-off are beginning to suffer now that US companies are creating fewer jobs, as Fed chair Jay Powell warns of a “low hire, low fire” economy.

During the pandemic, all US households benefited from the stimulus cheques provided by Trump and then former president Joe Biden. In the years since, jobs have been in plentiful supply — helping to support strong wage growth.

Now economists are watching a drop-off in the job market, which could be down to softening demand or the immigration crackdown. Other data sources show that America’s lowest paid workers — who are most susceptible to downturns in the economic cycle — are now seeing lower wage growth than higher earners.

Figures from the Atlanta Fed show that in August, the lowest quartile of workers had seen an average wage rise of 3.6 per cent, compared with 4.6 per cent for the highest earners.

“Even if the averages look good, if you go to the low-income population — not just in the US but everywhere — they are suffering because inflation is prohibitive and wages have not picked up as much,” says Ana Botín, executive chair of Spanish bank Santander.



ncinitas, California, in July. ‘On the surface, the economy looks resilient,’ says Isabelle Mateos y Lago, chief economist at BNP Paribas. ‘But underneath, there’s still a lot to worry about’ © Mike Blake/Reuters

On Thursday, Fed governor Christopher Waller said his business contacts were reporting that lower-income earners had been affected by higher prices. They were, he said, “already changing . . . spending plans to find better value.”

Their woes are set to intensify next year, when the Trump Administration’s signature tax and spending legislation, the One Big Beautiful Bill Act, is implemented.

The Congressional Budget Office, the fiscal watchdog, estimates the tax cuts will make the rich richer but at the expense of the poorest Americans.

Cuts to medical insurance and food stamps will lower resources for the lowest decile of the US income distribution by \$1,600 per year. The top 10 per cent could expect to see their resources rise by \$12,000 a year, it said.

There are widespread fears, including among public officials, that AI will exacerbate this gap between rich and poor in the US.

Cornell University professor Eswar Prasad said the impact of the AI boom in curbing job creation was spooking some officials from low-income countries as well.

“They are almost in a state of paralysis,” he says. “They see a major shockwave coming but feel powerless to do much about it.”

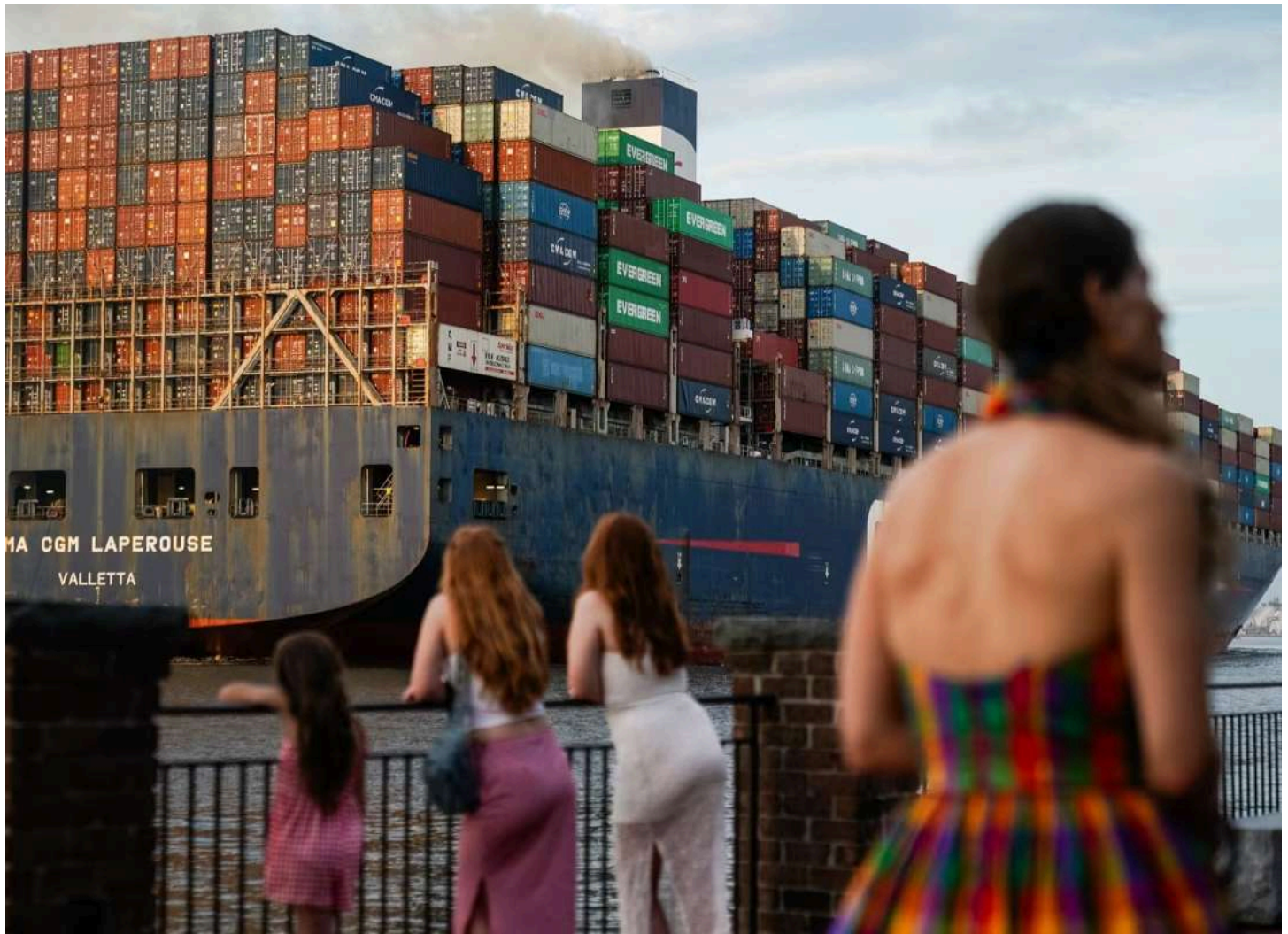
Expensive equities are not the only troubling sign in financial markets. The gold price has come to symbolise a deterioration of confidence in the dollar and the potential for big geopolitical shocks to hit global growth.

Tobias Adrian, the IMF's director of monetary and capital markets, says that analysts' bullish expectations on AI companies' earnings could eventually backfire. “One risk is that at some point, earnings could disappoint and that could then trigger a sell-off,” he tells the FT.

Market have been showing signs of nerves during the week as some investors fret about the health of US regional banks.

“A lot of it hangs on this optimism in investors and the stock market — if the stock market were to level out where it is now the gain is sufficiently large to keep consumption increasing at a brisk clip well into next year,” says Karen Dynan, a professor at the Harvard Kennedy School and former chief economist at the US Treasury.

“I think the bigger issue is what if there is some sort of correction?”



Savannah, Georgia, in June. The AI-fuelled tech investment and stock market boom has helped to calm grim predictions of a sharp slowdown sparked by President Trump's trade war © Elijah Berg

Ministers continue to fret about politics — particularly the unpredictability of US trade policy and the risk of fresh disruptions to global trade. Some are pointing to this month's outbreak of hostilities between China and the US over critical raw materials as a sign that the global economy remains in a vulnerable state.

Eelco Heinen, the Dutch finance minister, expresses relief at the trade deals that have been signed in recent months between the US and key partners including the EU, saying he sees less insecurity in the system now.

“On the other hand, we still feel something in the air — it could change quite rapidly,” he says. “The migraine is gone, but the headache is still there.”

Additional reporting by Martin Arnold and Myles McCormick in Washington

Data visualisation by Ian Hodgson

Join Claire Jones in conversation with former Fed vice-chair Lael Brainard and FT columnists

Chris Giles and Katie Martin on October 23 1200 GMT for an exclusive subscriber webinar

Markets on edge: central banks, bonds and the risks ahead. [Register now](#) and put your questions directly to our panel.