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U.S. Economy Roars Ahead, but Leaves Some Behind

BY JUSTIN LAHART

The U.S. economy is accelerating, gathering enough momentum from the artificial-intelligence boom and robust consumer spending to crash through wars, volatile markets and trade disruptions. Indeed, no major advanced economy has been growing like the U.S.

The expansion has boosted certain segments of the economy, while weighing on others. At the same time, higher borrowing costs have grown alongside profits and wealth. Wages have risen, though inflation has eaten most of the gains.

"The economy is robust, but it is also extremely concentrated," said EY-Parthenon economist Gregory Daco.

The unusual economic brew is likely to shape the outcome of U.S. politics. Midterm voters are heading to the polls as beneficiaries of a stable job market and fatter salaries, but frustrated with the cost of living and President Trump's handling of the economy.

Last week's gross domestic product report from the Commerce Department painted a picture of strength. The economy grew at a 3.4% annual rate in the third quarter, its fastest pace in a year. A closely watched measure of private demand grew even faster — 4.9%—putting in its best performance since 2021, when the economy was rebounding from the pandemic.

Consumer spending was the largest contributor to thirdquarter GDP growth. For the second quarter in a row it increased at a 3.8% annual rate, adjusted for inflation. Helping to fuel that rise: a substantial increase in household wealth, driven by the artificial intelligence boom. Despite weakness over the past month as investors fret over AI risks, the S&P 500 Friday closed up 11% from the end of last year.

Spending by businesses took off. Private, nonresidential investment—a measure of capital spending—increased at an inflation-adjusted 12.7% annual rate. AI-related areas were standouts. Spending on computing equipment grew at a 67% rate, while spending on data center construction rose at a 127% rate.

AI, however, has crowded out other segments. Housing construction has flatlined, hit by high borrowing, materials and labor costs as developers compete with the data center build-out.

Consumer- and capitalspending gains were more than enough to offset a widening trade deficit (much of the equipment going into AI is imported) and persistent weak --ness in the housing market.

In a Wall Street Journal poll conducted last month, 62% of respondents rated the economy as not so good or poor, versus 37% who rated it good or excellent. In addition to showing voters trust Democrats more than Republicans on handling the economy, the poll indicated that 51% of registered voters expect to pull the lever for Democrats, versus 44% for the GOP.

A model developed by Yale University economist Ray Fair uses GDP, a measure of inflation and historical voting patterns to predict electoral out--comes. Plugging in the latest data, it indicates Democrats should garner about 50.6% of the two-party vote

share in House of Representatives contests. Considering Republicans' districting advantage, that might not be enough to take the chamber.

Yet Democrats are widely expected to win the House, with polls suggesting they are more likely than not to win a majority in the Senate. The polls could be wrong, and Republicans could outperform expectations. Even so, discontent over the economy appears widespread.

Even with the surge in stock prices, Americans' ability to keep spending at their recent pace could be limited.

Over the 12 months ended in September, inflation-adjusted, or real, spending increased by 2.5%. But real, after- tax personal income grew 1%. As a result, the saving rate—the share of income left over after spending—dropped from 5.1% to 3.8%.

The slower pace of income growth could be one of the reasons people are giving the economy low marks—after inflation, they are having a hard time keeping up.

"Yes, the tide is rising, but it's not lifting all boats this --time," said Joe Brusuelas, economist at RSM.

This is particularly true of people who get most of their income from their paychecks, as opposed to sources like business income and retirement benefits. Since Trump came into office in January 2025, average hourly earnings have risen 5.5%, according to the Labor Department. But with consumer prices up 5.4% over the same period, nearly all of that wage gain has been eaten up by inflation.

Inflation could also be packing a harder punch than even the 3.7% increase in prices from a year ago suggests.

That is in part because rather than focusing on yearover- year change in prices, many people are comparing prices they are paying now to what they recall paying in the past. Nor does it help Republicans that many voters are blaming recent price increases on actions Trump has taken. In The Wall Street Journal poll, one quarter of respondents said they thought the Iran war was the most important contributor to high prices, while another quarter said Trump's tariffs.

"A few sectors are doing exceptionally well, and others are OK," said EY-Parthenon's Daco.

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