2026-10-30

ECO
Gen RE

WSJ Print Edition

GDP comes in strong at 3.4% and would be stronger without tariffs and mass deportation.

The U.S. Investment Boom Arrives

REVIEW & OUTLOOK

It's hard to recall a time with such a large disconnect between how Americans feel about the economy and the data. The Commerce Department on Thursday reported that GDP grew 3.4% in the third quarter thanks to surging business investment and buoyant consumer spending. So why are Americans so glum?

By objective measures, the economy is firing on most cylinders. Consumer spending remains healthy and contributed 2.52 percentage points to the third-quarter GDP increase. Even if consumers fume about higher prices, they aren't tightening their belts. Spending on motor vehicles, household furnishings, restaurants and travel increased.

Business investment accounted for 1.78 percentage points of third-quarter GDP and grew at the fastest rate in 15 years, aside from the Covid lockdown bounceback in 2020's third quarter. The AI boom is the main driver, but deregulation and the 2025 tax reforms, especially 100% business expensing, have also provided a lift.

Information processing equipment made up roughly half of the investment increase, while intellectual property (IP) chipped in 0.47 percentage points. IP investment slowed during the last two years of the Biden Presidency after business tax expensing for research and development ended in 2022. The 2025 GOP tax bill restored it. IP investment has increased at an average annual rate of 9.7% in President Trump's second term, versus 4% in the last two Biden years. Pro-growth policy matters.

Investment in equipment and technology boosts productivity, which will ultimately lift wages. Productivity slowed last decade, partly from sluggish business investment in the Obama years, but looks to be regaining its historical stride. Labor productivity has increased at an average 2.25% annual rate since January 2025, compared to 1.3% from 2010 to 2019.

Net exports subtracted 3.32 percentage points from top-line GDP growth owing to increased imports. But this is a deceptive artifact of the national accounts, since imports flow into consumer spending and investment. Imports of computer chips, gas turbines, copper and more help fuel the investment boom.

Mr. Trump says the strong GDP growth is evidence his border taxes are working. Sorry, no. Tariffs are a drag on growth. Investment in manufacturing plants declined 4% in the third quarter and has fallen 36% in his second term. Border taxes have increased uncertainty and business costs, which make it harder for manufacturers to invest. While the President might point to a new steel plant owing to his 50% steel tariffs, how much investment isn't happening because of tariffs? U.S. steel prices have increased 52% over the past year and are about two-thirds higher than in Europe. That's a killer for U.S. makers of appliances, machinery and electric power equipment.

The other major drag on growth is housing, which subtracted 0.12 percentage points from third-quarter GDP. Higher interest rates are the main culprit, but the silver lining is that the housing slowdown has freed up workers for other projects like data centers. Construction firms say they struggle to find workers because of an aging workforce and deportations.

Nearly two-thirds of builders said immigration enforcement is affecting their workforce, compared to 13% a year ago, according to a John Burns Research and Consulting survey. Immigration raids have forced beef processing plants to reduce production. One result: Higher beef prices. The raids have also become a liability for Kansas GOP Sen. Roger Marshall.

"These ICE operations are having a massive chilling effect on the legal, documented, skilled workers that put beef on the table and keep the cattle supply chain moving," cattle industry groups in Texas, Oklahoma and Kansas warned last month. "These types of disruptions will lead to higher beef prices for consumers."

For personal non-commercial use only.

Therein lies the main source of voter unhappiness: Inflation. The personal consumption expenditure (PCE) price index, the Federal Reserve's preferred inflation gauge, fell to an annualized 2.1% in the third quarter. But the inflation hangover from the Biden years plus tariffs, combined with the surge in gas prices from the Iran war, have voters in a sour mood.

The U.S. economy in Mr. Trump's second term is in many ways a story of what might have been. Deregulation, AI and tax cuts have led to an investment and productivity boom, but inflation and antigrowth tariffs and mass deportation are diminishing what could be a broader prosperity. The GOP may pay a political price next week.

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

Copyright (c)2026 Dow Jones & Company, Inc. All Rights Reserved. 10/30/2026

For personal, non-commercial use only.