US Analysis

November 19, 2026

RBC Economics

November US Executive Briefing: Resilience up in the economy but so are costs

All year, our view of the US economy has rested on three themes: Solid growth, a healthy labor market, and increasingly sticky inflation that isn't likely to go away quietly.

November data reinforced all three. The economy is absorbing multiple shocks, but at the cost of higher prices and now higher interest rates. We aren't using the word "overheating." But it's fair to ask whether the economy is starting to heat up, not just hold steady.

Here's where we saw the temperature rise this month:

Growth didn't just hold up, it sped up

The US economy has continued to handle shocks better than expected, and recent data suggests momentum may be building. Two drivers stand out.

1. AI investment has shifted from building data centers to equipping them. In total, Q3 saw the strongest quarterly growth for nonresidential equipment since 2011 (excluding the post-Covid re-opening). Information processing equipment growth accelerated to over 37% SAAR while industrial equipment advanced by nearly 25% SAAR.
2. Personal consumption accelerated in Q3, driven by higher-income consumers. Spending is firing on all cylinders with durable goods spending accelerating despite rising prices, and services spending (4.1% SAAR in Q3) advanced at the fastest pace since 2022.

Q3 GDP looked sparkling at 3.4%, but more impressive was final sales to private domestic purchasers—a cleaner read on underlying demand— which rose a whopping 4.9%. Nominal growth is running close to 6%. We've raised our growth forecasts to 2.4% for both 2026 and 2027, and recent data revisions suggest even further upside risk to that view.

Frances Donald | Mike Reid

Heat is rising in the labor market but boiling point has moved higher

We've long argued that America is structurally more likely to be short of workers than jobs. What may be changing is that cyclical strength is now adding to structural pressure.

An economy seeing 6% nominal growth naturally puts strain on labor supply while retirements continue to shrink the pool of workers. October payrolls came in well above expectations, and unemployment edged down to 4.1% (even as more people returned to the labor force particularly this month).

At the same time, small businesses are citing the quality of available workers as their top concern at rates well above pre-pandemic norms. Some Federal Reserve officials have noted similar concerns, and it's a question we increasingly hear from executives: Where to find bus drivers, tradespeople, and hospitality staff?

When does a tight labor market go from being a great thing to a problem?

First, when wages start to rise more meaningfully. We're not there yet. Wage growth seems healthy, at least, on the surface. Though, we continue to caution there are elements that might be depressing some headline metrics of wage growth including retirements of older (and above average) paid workers, and the net job creation in below-average pay sectors like healthcare and social assistance.

Second, when labor shortages limit businesses from growing. No signs there either: Capacity utilization fell this month, and some of the fastest-growing parts of manufacturing rely more on automation than headcount.

Technology is also helping sectors like transportation and warehousing do more with workers they have. In a shrinking workforce, growth that requires fewer new jobs is an advantage. It's also likely to slow "overheating" in the traditional sense.

Inflation is broadening with more pressure still in the pipeline

While growth and jobs look solid, the US has a worsening inflation problem. The breadth is spreading with roughly half of items in the Consumer Price Index running above 3% y/y.

Higher diesel prices have filtered into freight costs, which in turn is pushing up goods from groceries to clothes and toys. Transport services have been impacted as well, reversing nearly all of the summer's progress on inflation.

It's also difficult to say whether pressures on consumer prices will dissipate anytime soon. Freight transport costs are up 16.5% y/y, and those costs are being passed through the supply chain. Broader producer prices are growing at 6.5% y/y, marking the widest spread between the Producer Price Index and Consumer Price Index since mid-2022.

With limited layoffs, firms appear to be choosing to pass higher costs on to consumers versus protecting margins by cutting labor costs. A key risk heading into the holiday shopping season will be whether retailers hold prices steady or limit discounts, which could mean more of that pass-through arrives early 2027.

The Fed's Poly-K challenge

The K-shaped consumer has become a familiar idea by now, but the notion of a fractured economy needs to evolve.

There are Ks everywhere in the US economy: Retirees and workers, AI and housing investment, supply-driven and demand-driven inflation. We describe it as a "Poly-K" economy. A pattern emerges when viewed together. The forces adding to inflation are less sensitive to interest rates, and live in the upper part of the Poly-K. Meanwhile, the parts of the economy most affected by rates are contributing less to inflation, and already struggling at the bottom of the Poly-K.

This helps explain why Fed messaging can seem mixed at times. If it's unclear how higher rates will cool inflation, there's a reasonable case for not putting too much pressure on the most vulnerable parts of the economy, some of which are already showing signs of stress. It's also why our forecast can show inflation above target alongside a relatively modest number of rate hikes. October's decision to hold with two dissents in favor of a hike reflects that tension.

Still, inflation broadening combined with a strengthening labor market will make it more difficult for the Fed to make the case that only small adjustments are needed ahead. We expect hikes in December and March, but with some risk of more.

The US economy has shown it can absorb a great deal. The big question is how the costs get shared across the Poly-K?

Growth outlook

House view: US resilience continues with underlying growth above the 2% trend, and divergence beneath the surface. AI continues to drive the entirety of the business investment story: Spending on information processing equipment and data center infrastructure has surged, while capex outside of AI remains exceptionally weak. For consumers, spending accelerated despite elevated prices, but a Fed hiking cycle will weigh on those exposed to debt. With energy prices elevated, we view risks to the economy as roughly balanced with downside surprises still possible should energy inflation spill over more meaningfully to other sectors.

November 2026 forecast:

GDP QoQ annualized, %

Q4-26	Q1-27	Q2-27	Q3-27
2.2	2.2	2.3	2.3

Downside risks to growth (lower growth)

- Middle America is showing some signs of cracks as the savings rate declines and real wages have been hurt.
- Housing affordability continues to weigh on residential investment and construction activity.
- Consumer debt and interest expense is weighing on consumers, particularly for younger borrowers, limiting consumption.
- Rising goods imports, primarily for AI related capex, can widen the trade gap.
- The housing market, which is already subtracting from growth, will likely continue to be collateral damage as the Fed hikes rates.

Upside risks to growth (stronger growth)

- Spending by the rapidly growing retired cohort is bolstered by strong asset price appreciation.
- AI capex and plans signal continued strong growth (thought likely at a decelerating pace) into 2027.
- Services spending continues to grow as consumers remain resilient. Goods sector spending appears stronger than anticipated despite higher prices.
- Defense spending accelerating can be technically additive to GDP.
- Inventory restocking represents a tailwind in 2027 once pre-tariff inventories have been fully drawn down.

Balance of Risks: Growth



Inflation outlook

House view: Inflationary pressures remain broad and persistent with energy prices elevated and tariffs still in the picture. Freight costs look concerning and appear to be spilling over into the core goods sector with emerging signs of a re-acceleration of core inflation. Housing disinflation has run its course, and we view it as a growing longer-term risk due to lack of supply. Importantly, the Fed returning from the sidelines does not guarantee that primarily supply-driven inflation will be tamed. We also acknowledge these hikes may produce undesirable side effects for lower- and middle-income consumers. Traditionally, hikes would work to protect against a demand-driven inflation spike. But with non-labor income growing in importance, new risks emerge. If inflation cools at the same time we get the inflation-adjusted 2027 Cost of Living Adjustments (COLAs) for Social Security income, the risk remains that benefits meant to support retirees fuel broader price increases.

November 2026 forecast:

CPI, y/y %

	Q4-26	Q1-27	Q2-27	Q3-27
headline	3.9	3.4	2.4	2.4
core	2.9	2.9	2.9	2.9

Downside risks to inflation (i.e. cooler inflation)

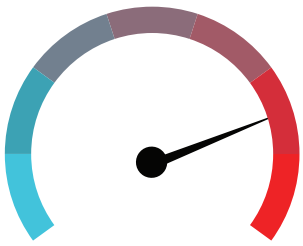
- A more active Fed, intent on hiking rates to cool inflation could indeed have the desired effect.
- Consumer demand for discretionary goods and services erodes as a result of higher costs for essentials and high debt servicing costs.

Upside risks to inflation (i.e. higher inflation)

- Geopolitical risk backdrop is persistently elevated. High oil prices limit improvements in inflation. Spillovers into core goods remain a key risk of persistently elevated energy prices and freight costs.
- Additional tariffs could translate to higher inflation in the goods space.

- Trade-exposed layoffs would lead to reduced purchasing power and lower demand. Layoffs are another option for firms looking to preserve margins without fully absorbing higher prices, and trade services PPI data flags margin compression may be emerging.
- An end to the conflict in the Middle East would help bring down energy prices and relieve pressures spilling over to the broader economy.
- AI buildout could lead to demand-driven price pressures for products whose inputs contain semiconductors, along with higher utility costs.
- Social Security Administration's 2027 3.6% Cost of Living Adjustments (COLAs) based on Q3 headline inflation will result in a sizeable adjustment to government transfer income, which could translate to demand-driven inflation pressures in early 2027.

Balance of Risks: Inflation



Labor market outlook

House view: We continue to expect structural factors will keep the US labor market very tight. Monthly hiring has outpaced expectations in recent months—especially in the context of exceptionally low breakeven employment. But the backdrop remains mixed. Employment in some white-collar sectors is falling, contributing to a notable skills-matching problem facing new graduates. The unemployment rate gives us the best gauge of labor market health and it remains exceptionally low—at 4.2%. Still, retirements have driven the unemployment rate lower recently. If we do see a reversal of this trend, re-entrants could drive a slight uptick in the unemployment rate. But extremely low jobless claims and minimal WARN notices suggest there isn't currently a sizeable risk of an uptick in layoffs.

November 2026 forecast:

Unemployment rate, %

Q4-26	Q1-26	Q2-27	Q3-27
4.1	4.2	4.2	4.2

Downside risks to labor
(higher unemployment rate)

- Energy price spikes erode margins and cost cutting measures result in layoffs.
- New tariff announcements risk a slowdown in trade-exposed sectors.
- Consumer demand erodes in the face of higher prices, forcing firms to cut jobs.
- Seasonal hiring limited by higher costs could mean fewer workers hired during the final months of 2026.

Upside risks to labor
(lower unemployment rate)

- Retirements ramp up faster than expected and firms need to backfill positions.
- Consumer demand for services is stronger than expected resulting from strong transfer income to retirees. Firms need to hire to keep up with demand.
- Firms investing in labor-augmenting technologies ramp up hiring to deploy widespread implementation.

Balance of Risks: Labor



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