

Why So Sad?

1 message

Sage Economics

September 1, 2026

Why So Sad?

Four explanations for the bad economic vibes

ANIRBAN BASU & ZACK FRITZ



People just do not like the economy right now. Consumer sentiment is worse than during the 2008 financial crisis and way worse than during the early months of the COVID-19 recession.

Consumers Do Not Like This Economy

University of Michigan Consumer Sentiment Index (3-Month Moving Average)



Both of those times were objectively worse from an economic standpoint. Unemployment is just 4.1% right now. It was at least twice that high over a 42-month stretch from early 2009 to mid-2012 and soared to nearly 15% (!!!) in early 2020.

This discontent is broadly shared across demographics. Democrats? Not happy. Republicans? Also sad. Old? Young? College educated? GED? Doesn't matter. Everyone's upset.

[Okay, rich people are slightly less upset, but that's to be expected.]

The vibes are bad, as the kids would say, but they're not inexplicable.

Part 1: Inflation

People hate inflation. Can't stand it. Look at that consumer sentiment chart above. The only other time it's been this bad was 1980, when prices were rising at a nearly 15% annual rate.

This doesn't need too much explanation. Rapid inflation makes us poorer. Nobody likes being poorer.

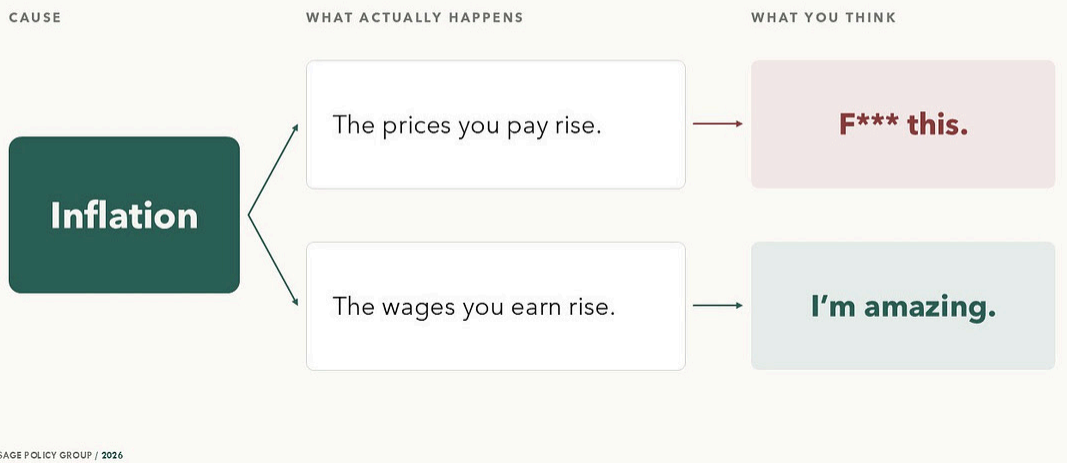
It is worth noting, however, that people hate inflation even when it causes their personal earnings to rise faster than overall prices. To be clear, that was pretty common in 2022. Take job switchers. Inflation peaked at a 9.1% year-over-year pace in 2022, while the median job changers' pay increased at a roughly 16% annual rate.

The psychology at play here: when you get a raise or a new higher-paying job, that's all you. When the prices you pay rise, that's on someone else (corporations, the president, Congress, etc.).

Never mind that the same forces that push prices higher often push wages higher too.

The Psychology of Inflation

Why we really hate price increases



Part 2: Real average hourly earnings

The flow chart above is fun and true: inflation pushes down sentiment even when earnings are rising faster than overall inflation, which was broadly the case in 2022 and 2023.

That changed when gas prices took off in February, and falling real earnings are a legitimate reason for people to be upset about the economy.

Inflation-Adjusted Pay Takes a Dive

Real Average Hourly Earnings (July 2026 Dollars)

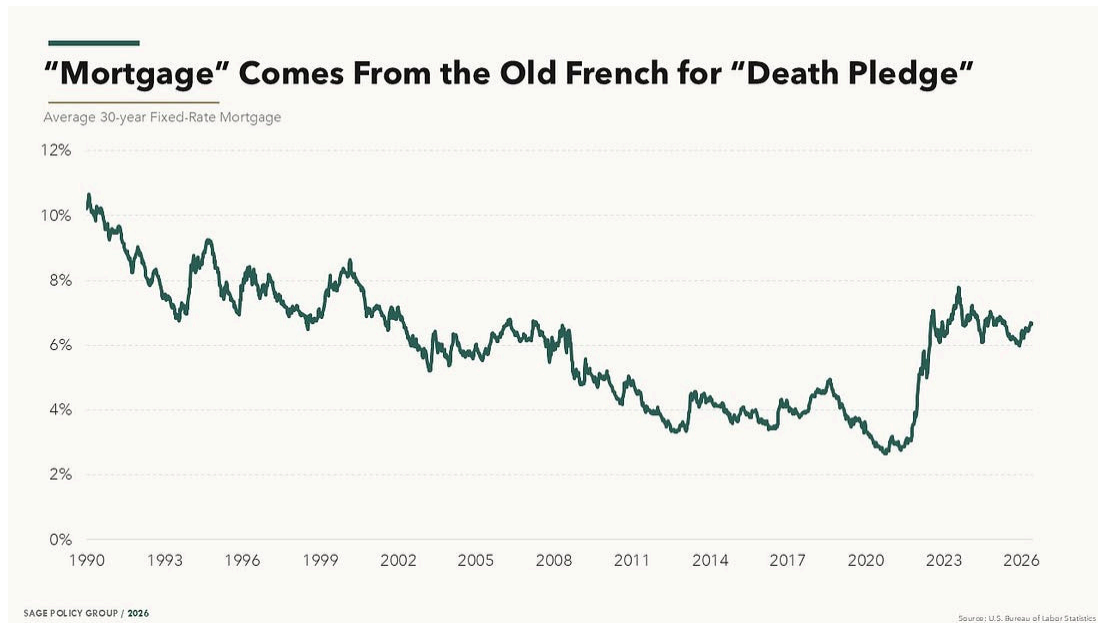


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Source: U.S. Bureau of Labor Statistics

Part 3: Housing

Won't belabor this one: mortgage rates are high, and that makes it really expensive to buy a house. Prospective homebuyers are justified in hating the current economy.



Part 4: Supply-constrained goods & services

The average U.S. household is richer than ever and, in many ways, enjoys a lifestyle that would be unimaginable even a few decades ago. They watch a bigger, nicer TV and drive a bigger, nicer car. Their house is loaded with time-saving appliances. They take more vacations, and those vacations take them farther from home.

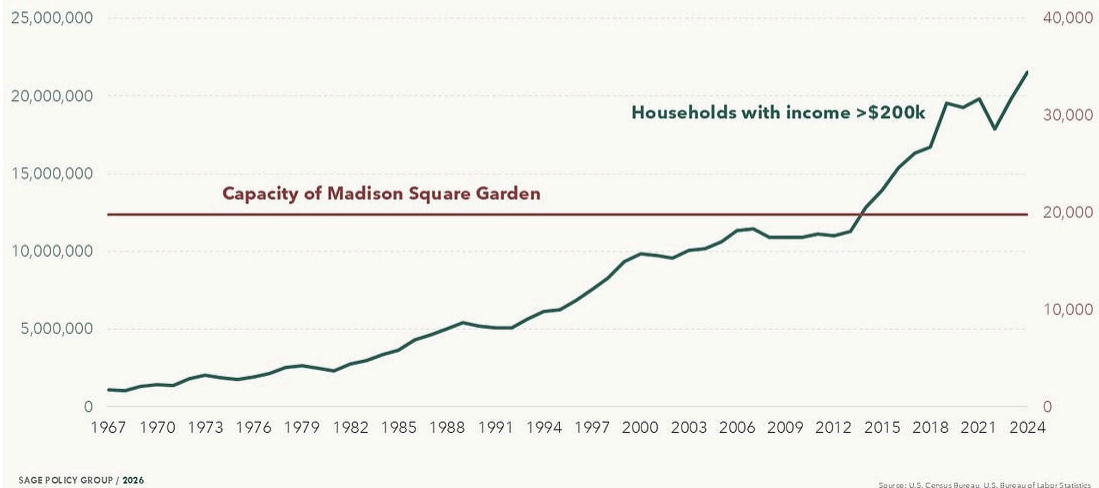
But all of those things aren't particularly supply-constrained. Society can easily up the production of TVs and cars and appliances and airplanes.

It's supply-constrained goods and services that have everyone pissed off. For example, consider these two facts:

1. The number of households with more than \$200,000 in *inflation-adjusted income* has increased by 20x since 1967 and roughly doubled since 2013.
2. The capacity of Madison Square Garden (19,812) has not changed since 1967.

More Rich People, Same Supply-Constraints

Households with >\$200k income vs. The Capacity of Madison Square Garden



If you made (again, the inflation-adjusted equivalent of) \$200,000 in 1967, you could definitely go to an NBA Finals game. You could go to all of them, maybe even the road ones too.

In 2026, it was borderline-irresponsible for a household making \$200,000 to go to an NBA Finals game at Madison Square Garden; the lowest-priced tickets on resale markets were over \$1,000.

This same dynamic applies to everything supply-constrained. The number of homes in nice neighborhoods has not doubled since 2013, nor has the capacity of Disney World or the enrollment at that nice private school.

This effect is present across the entire earnings distribution. The working-class family that used to rent a house at that nice local beach for a full week now gets a weekend in a condo (or a week at a cheaper destination).

An upper-middle-class family—maybe one earner is a doctor—that could be front row at a popular concert in the '80s now sits in general admission at the Taylor Swift show.

The millionaire who would have had a Warhol hanging in their office in the '80s now has to settle for a work by some artist you've never heard of.

Etc. etc.

Your ability to access these supply-constrained things/experiences depends on your income relative to everyone else rather than your income compared to overall prices, and the resulting lack of access makes people feel worse off than previous generations who attained the same level of financial success.

There's no easy or quick solution for this. Madison Square Garden can't double its capacity every decade, and good luck trying to get your favorite vacation town to build more housing.

The Data Center Boom Booms Even Harder

Sage Economics

September 2, 2026

The Data Center Boom Booms Even Harder

Data centers, so hot right now

ZACK FRITZ & ANIRBAN BASU



Data center construction spending surged another 6% in July and now accounts for an even 10% of all private nonresidential construction activity.

Data Center Construction to the Moon

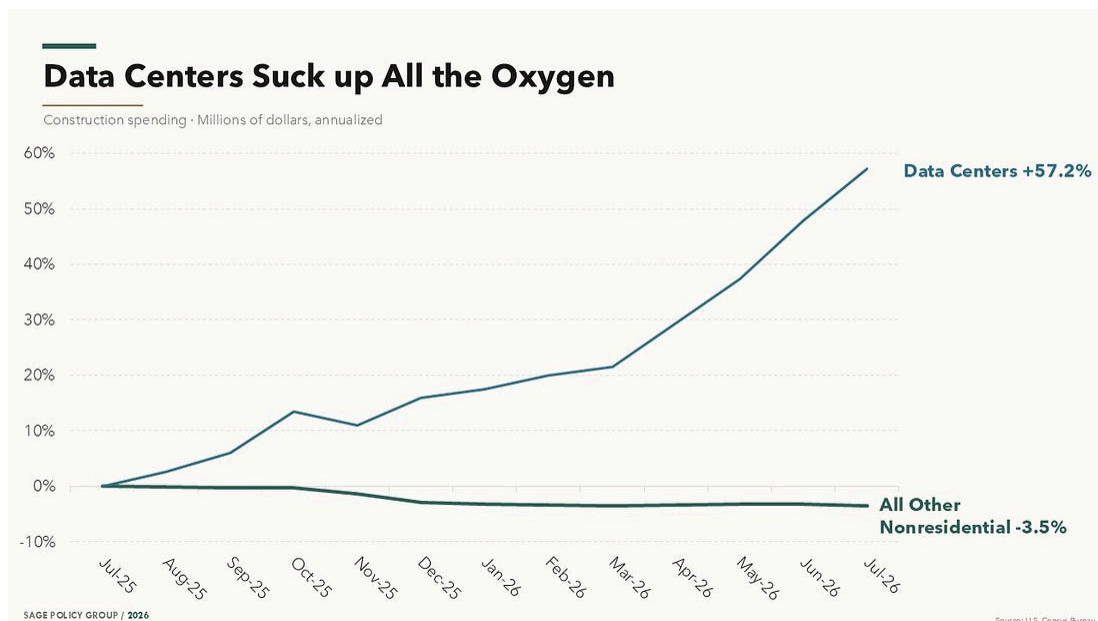
Private data center construction spending · Millions of dollars, annualized



[The graph's title, "Data Center Construction to the Moon," could become a real thing. There are at least semi-serious efforts to put data centers in space/on the moon.]

The segment has grown at an unfathomable 116% annual rate since March. If that pace continues, it will expand to \$162.6 billion by this time next summer, making it 29% larger than computer/electrical manufacturing construction was at its peak in June 2024.

This boom is absorbing a lot of the capital that would typically flow to other construction segments. Over the past year, data center spending has risen by 57% (+\$27.3 billion), while all other nonresidential construction spending is down 3.5% (-\$43.7b).



This dynamic has benefited a narrow subset of—mostly large—contractors. Our latest ABC CBI data shows that the 12% of contractors with data center work have way longer backlog (11.4 months) than the 88% who aren't (7.5 months).

August Jobs Report Smashes Expectations

Sage Economics

September 4, 2026

August Jobs Report Smashes Expectations

Not much to dislike here

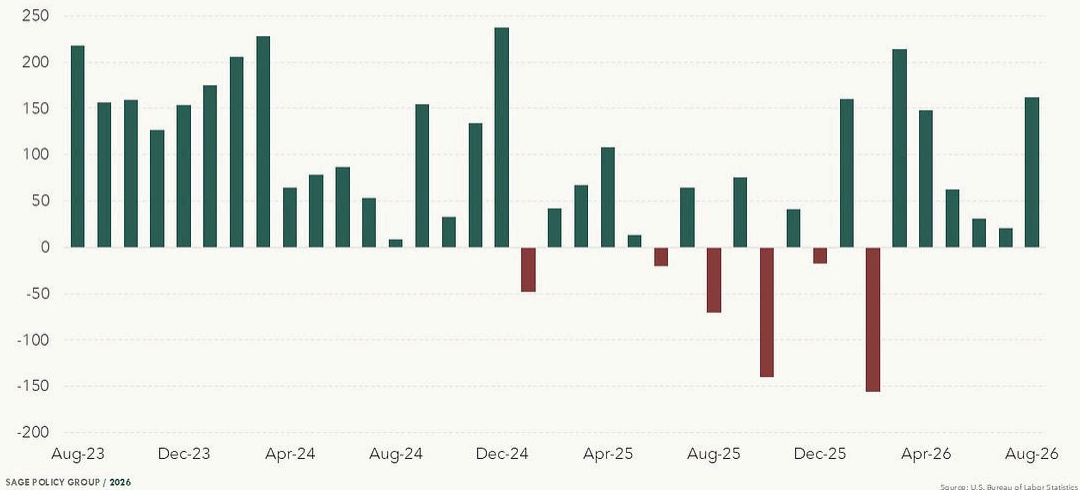
ZACK FRITZ



U.S. employers added an impressive 162,000 jobs in August, and the prior two months' estimates were revised up by a combined 55,000 jobs. As you can see below, this is a nice rebound from the slower growth that occurred from May to July.

Job Growth Rebounded in August

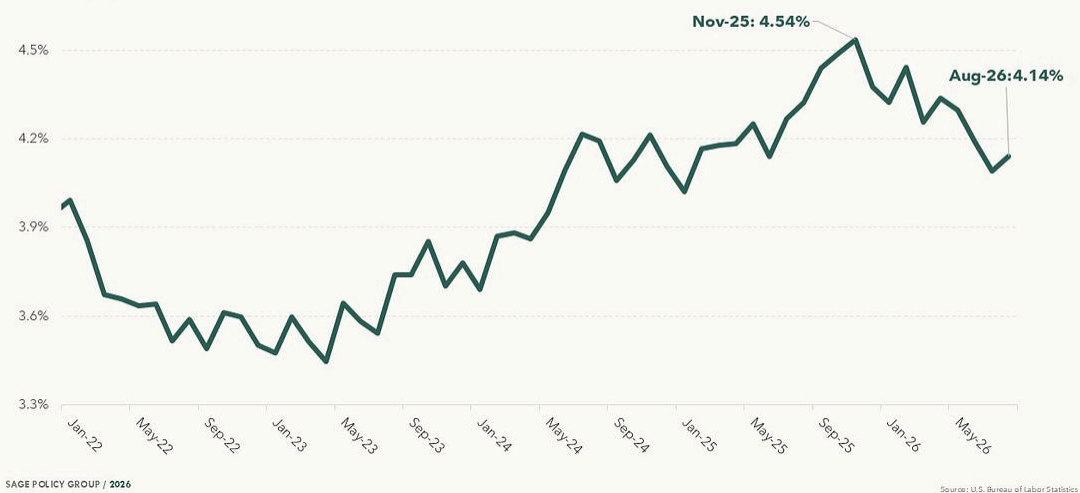
U.S. Monthly Employment Growth · Thousands of Jobs (Seasonally Adjusted)



While job growth only just bounced back in August, unemployment has been improving since it reached a cyclical high of 4.5% last November. It ticked up slightly in August (from 4.09% to 4.14%) but is still low by historical standards. Nothing to worry about here.

Unemployment Stays Tame

U.S. Unemployment Rate

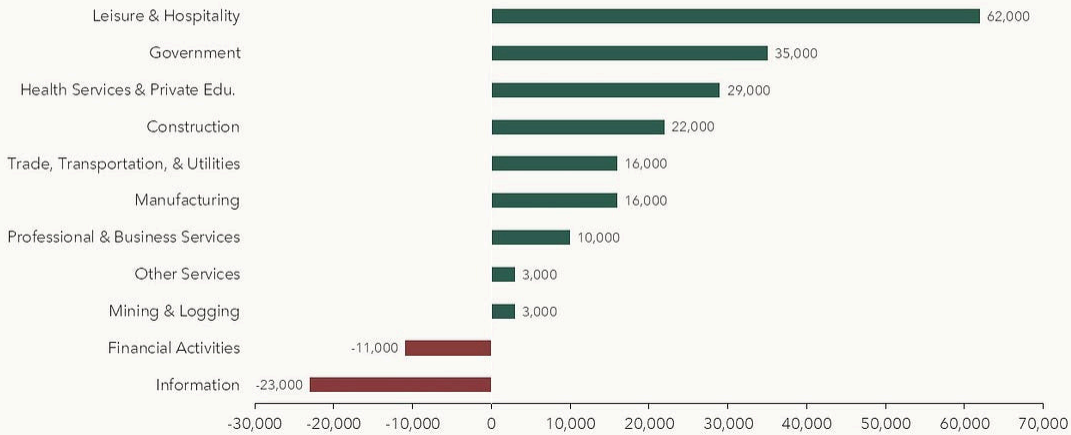


Employment gains were ever-so-slightly broader than in previous months, though healthcare and leisure and hospitality still lead the way.

Government tacked on another 35,000 jobs for the month, and that was entirely due local governments adding 41,900 education jobs. Both federal (-5,000) and state (-10,000) government lost jobs for the month.

Job Growth Branches Out

1-Month Employment Change by Sector · August 2026



SAGE POLICY GROUP / 2026

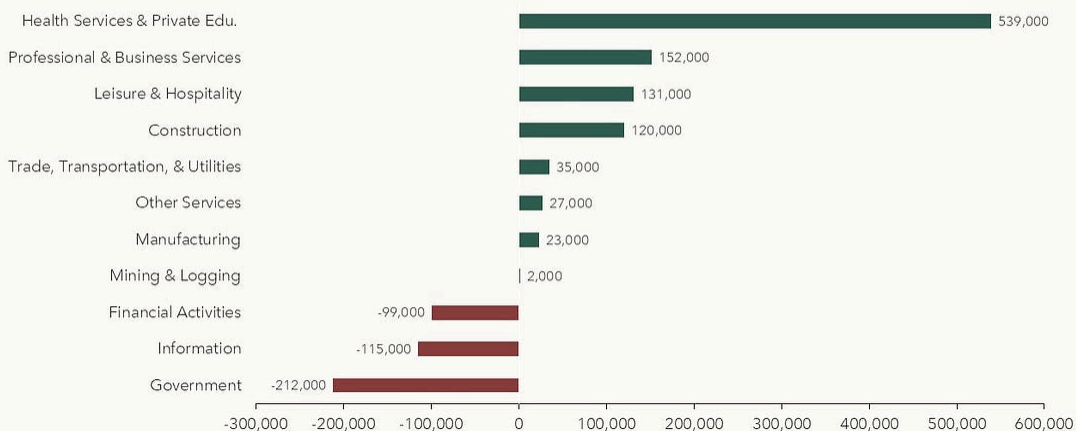
Source: U.S. Bureau of Labor Statistics

The information industry (think tech and media) lost another 23,000 jobs in August. It's tempting to chalk the industry's ongoing struggles up to AI, but I'm skeptical. Traditional media has been shrinking for years, and the tech sector is still pulling back from its early 2020s low-interest-rate fueled hiring binge.

Over the past year, job growth is still incredibly concentrated in the healthcare sector.

Those Branches Aren't Visible Year over Year

12-Month Employment Change by Sector · August 2025 vs. August 2026



SAGE POLICY GROUP / 2026

Source: U.S. Bureau of Labor Statistics

Concentrated job growth aside, there's just not much to dislike in today's report. If you really want to quibble, the prime age (25-54) employment-to-

population ratio hasn't bounced back after dropping sharply earlier this summer, but that would be some pretty serious quibbling.

The Big Picture

The labor market is in pretty good shape. That allows the Fed to focus on inflation. Which is to say, the odds that the Fed hikes rates at its next meeting are higher than they were before this release.

Heated Week in Review

Sage Economics

September 4, 2026

Heated Week in Review

Jobs, rates, diesel, & more

ANIRBAN BASU & ZACK FRITZ



This week gave us a great jobs report, evidence that the data center build out is full steam ahead, and a few other signs of ongoing—dare we say *hot*—growth.

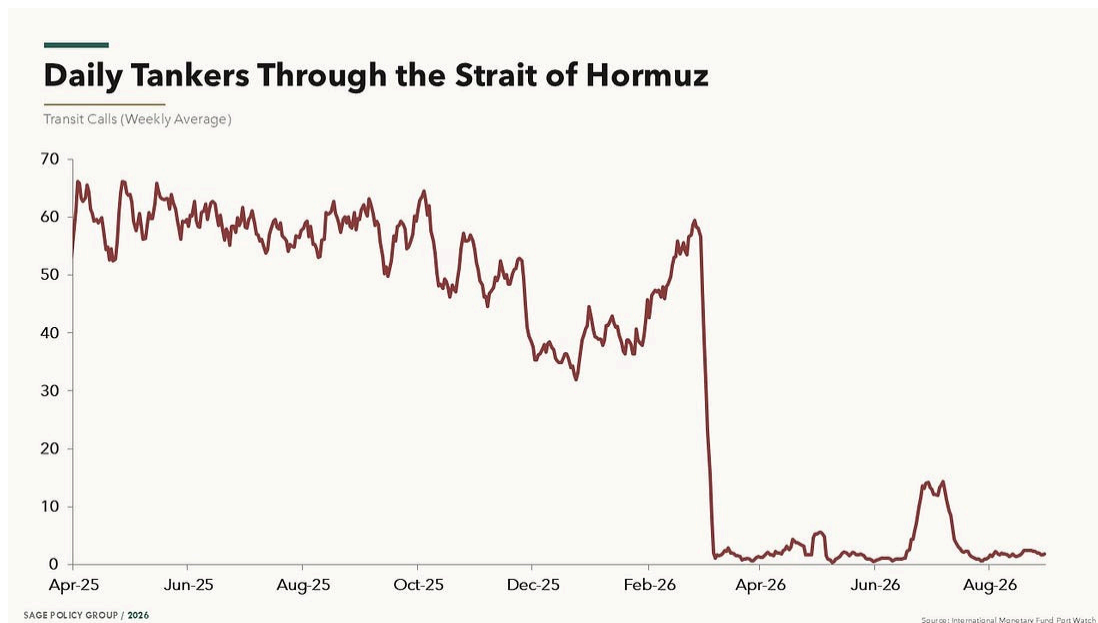
Hot growth can cause overheating, though, and this week also gave us a new year+ high in mortgage rates, rising treasury yields, and a few reasons to think that inflation is going to pick up over the coming months.

Monday

Oil Stuff

Both gas and diesel prices fell slightly during the week ending Monday 8/31, but oil prices rose pretty sharply starting on Tuesday, and these prices will keep rising next week. According to GasBuddy, diesel prices hit an all-time high on Thursday.

Big picture, the Strait of Hormuz is still effectively closed, we're still bombing Iran, and the outlook for oil prices remains less than great.



Nationalizing (Another Country's) Oil

The U.S. and Venezuela reached an agreement that gives the U.S. a 35% equity stake in a company that now has 100-year concessions to 65 billion barrels of proven oil reserves. Put simply, the U.S. gets extensive governance rights and guaranteed access to at least 20% of production at cost.

Note that proven reserves—an estimate with reasonable certainty of how much oil can be extracted from a field—are not the same as strategic reserves, which are existing, tucked away oil supplies.

The White House has framed this as a way to refill the Strategic Petroleum Reserves, with the replenishment starting as soon as November.

Unfortunately, Venezuelan heavy crude really isn't compatible with the SPR, so this could go one of three ways:

1. It won't be used to refill the SPR.
2. We can technically put the heavy crude in there, but it will cause problems down the road.
3. We can trade heavy crude barrels for the medium sour that typically goes in the SPR.

Big picture, this won't really affect oil prices in the short term—note that oil prices have risen since this announcement.

Tuesday

Job Opening & Labor Turnover Survey (JOLTS)

Hiring slowed in July, but so did layoff activity and quits. Job openings held pretty steady. It remains a nice time to have a job and a bad time to need one.

ISM Manufacturing PMI

Manufacturing activity expanded for the 8th straight month in August, according to this survey of industry purchasing managers. That's the good news.

The bad news is that the survey suggests goods prices are going up, and they're going to start going up *fast*. As always, the respondent comments are the most informative part of this, and they're not particularly upbeat this month.

Construction Spending

Construction spending fell for the second straight month in July and is now down 3.8% over the past year.

The residential side of the industry is really struggling, down more than 7% year-over-year, and there's been a particularly steep decline in single-family construction activity.

Nonresidential has been moderately better, inching up 0.1% for the month and down just 1.3% since July 2025, but that's entirely due to data centers (which we wrote about at length on Wednesday).

Critically, some degree of the industry's broader weakness is due to the data center boom. Without that incredible activity, borrowing costs would be lower and there'd be more capital to go around. While this won't make contractors waiting for broader momentum feel any better, it does suggest a bit of an automatic stabilizer if the AI buildout slows.

Wednesday

ADP Employment Report

Private employers added 38,000 jobs in August, according to [payroll processing company ADP](#). That's the fewest in any month since January, and the hiring was almost entirely concentrated in education and healthcare, leisure and hospitality, and construction.

This matters less than Friday's BLS jobs report, but you'd still rather see a better number here.

The Beige Book

The economy grew at a modest pace over the past couple months according to this [Fed collection of anecdotal information](#). Something that stood out: "Firms also broadly reported significant health care and insurance cost pressures." This is a big issue, and one we'll probably dig into at length over the next few weeks.

Mortgage Applications

[Mortgage applications](#) increased ever so slightly this past week, but that's got to be due to seasonal adjustment factors struggling around Labor Day. On an unadjusted basis applications fell, and there's just not much hope for an imminent rebound here.

Thursday

ISM Services PMI

The services side of the economy grew for the 26th straight month in August, according to this [survey of purchasing managers](#), but the prices component of the index rose to a 4-year high. The [comments](#) are a just slightly more upbeat on this one, but purchasing managers are simply not having a good time with tariffs and oil markets.

Mortgage Rates

[Mortgage rates](#) rose this week, with the average 30-year fixed up to 6.71%, the highest level in over a year.

Jobless Claims

Initial jobless claims stayed low. Layoffs remain a complete non-issue.

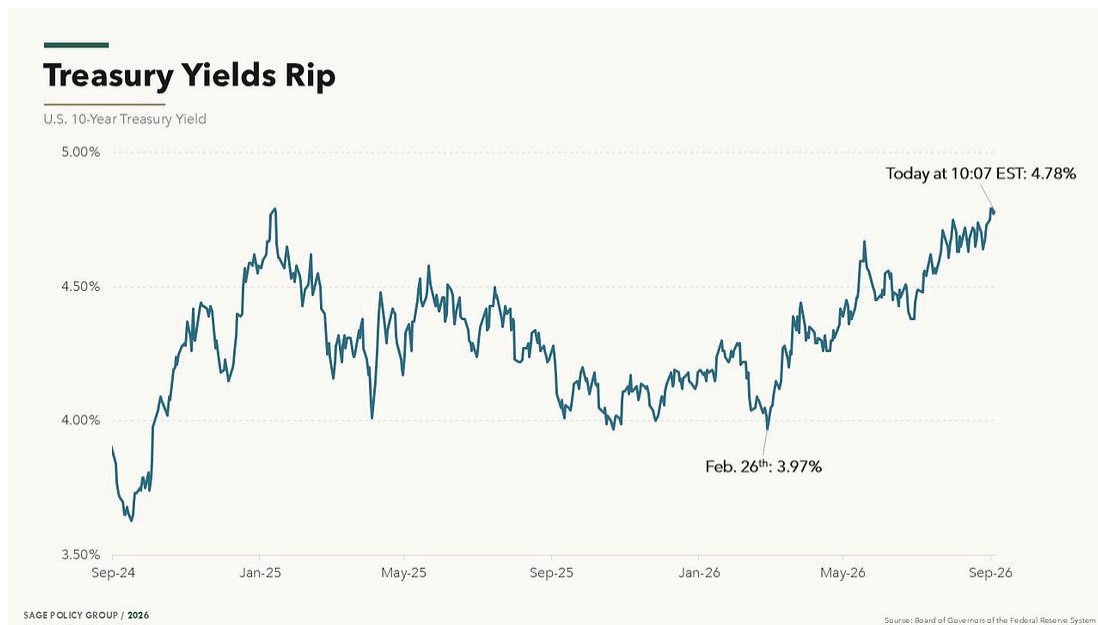
Friday

BLS Jobs Report

Employers added 162,000 jobs in August, smashing expectations, and there were nice upward revisions to the prior two months of data. Unemployment held at perfectly acceptable 4.1%. This was a good jobs report, and one that increases the odds that the Fed will raise rates at their next meeting.

Treasury Yields

Treasury yields rose throughout the week, continuing their upward ascent. This is bad news for borrowing costs.



Links of the Week

Weapons of Mosquito Destruction (Uncharted Territories)

Why you won't get a flying car (Noahpinion)

We Can't Let AI Writing Take Over the Internet (Derek Thompson)

Final Thoughts

After this week, Anirban's outlook for the economy is: *Improved*

It was a terrific employment report, unemployment is steady, and the rise in bond yields appears to be because the economy is still overheated rather than broader concerns.

After this week, Zack's outlook for the economy is: *Slightly worse*

I know, it was a good jobs report, but I haven't been worried about growth for a while. I'm worried about rates and inflation; diesel prices and the comments on the ISM PMI reports were a particularly bad sign on that front.

Construction Labor Costs Strike Back

Sage Economics

September 9, 2026

Construction Labor Costs Strike Back

The price of the electrician going up

ANIRBAN BASU & ZACK FRITZ



Construction Trend Tuesday covers one (hopefully) interesting industry trend in a quick, two-minute read. You can access the archive of [CTT posts here](#).

Construction labor cost escalation cooled considerably from late-2022 to late-2024, but that trend is now firmly behind us. Average hourly earnings for non-managerial construction workers are now up 5.0% year over year.

Construction Labor Costs Strike Back

Average hourly earnings for production employees • Year-over-year % change



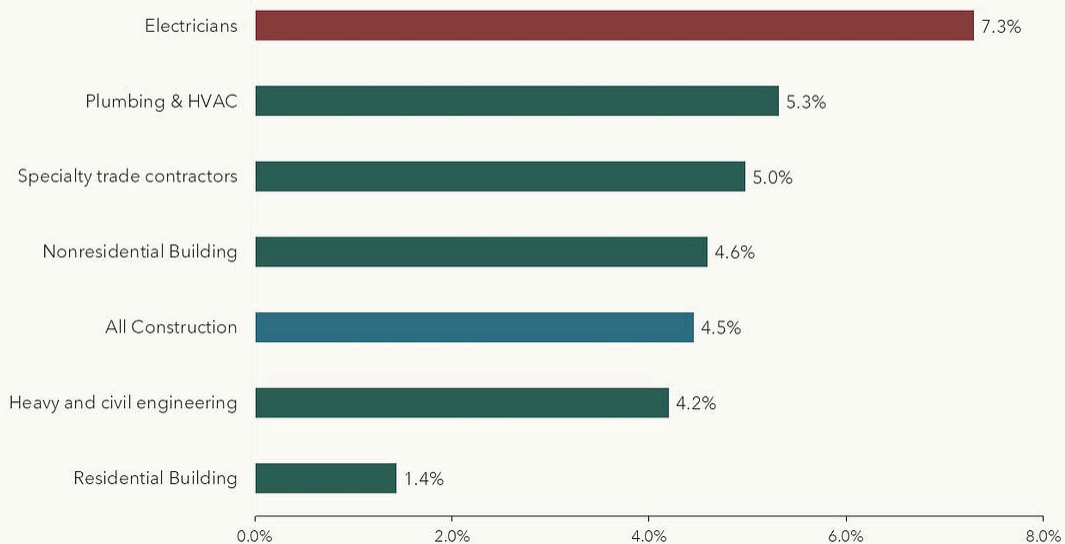
SAGE POLICY GROUP / 2026

Source: U.S. Bureau of Labor Statistics

That—stop us if you’ve heard this one before—is largely due to data centers. Specialty trade contractors are leading the labor-cost-escalation charge, with electricians (+7.3% year-over-year) at the vanguard.

Electricians’ Shocking Pay Gains

Average hourly earnings • Year-over-year % change, July 2026



SAGE POLICY GROUP / 2026

Source: U.S. Bureau of Labor Statistics

There are other potential factors at play, like stricter immigration policy. The share of construction jobs unfilled is near a two-year high and right in line with

2019 (when construction workers were pretty hard to find). That's what you'd expect to see if immigration policy was shrinking the industry's workforce.

But you'd also expect to see faster wage gains outside of specialty trades, and we really haven't (at least not yet). It's possible that immigration policy is shrinking the workforce but activity is weak enough that it's not dramatically impacting labor costs beyond AI-related segments.

Ripping Week in Review

Sage Economics

September 11, 2026

Ripping Week in Review

Inflation, rates, diesel, & more

ANIRBAN BASU & ZACK FRITZ



From November to August, a Honey Crisp is the best apple you can get. It's the size of a small pumpkin, more dependable than Cal Ripken, and keeps like fine wine.

But then September comes around, SweeTangos hit the shelves, and Honey Crisps suddenly seem bloated, mundane, and—let's be honest—overpriced. A SweeTango is simply divine. You can't capture its splendor in words, though [Applerankings.com takes a good run at it](#). Really, do yourself a favor and get one while they're in season.

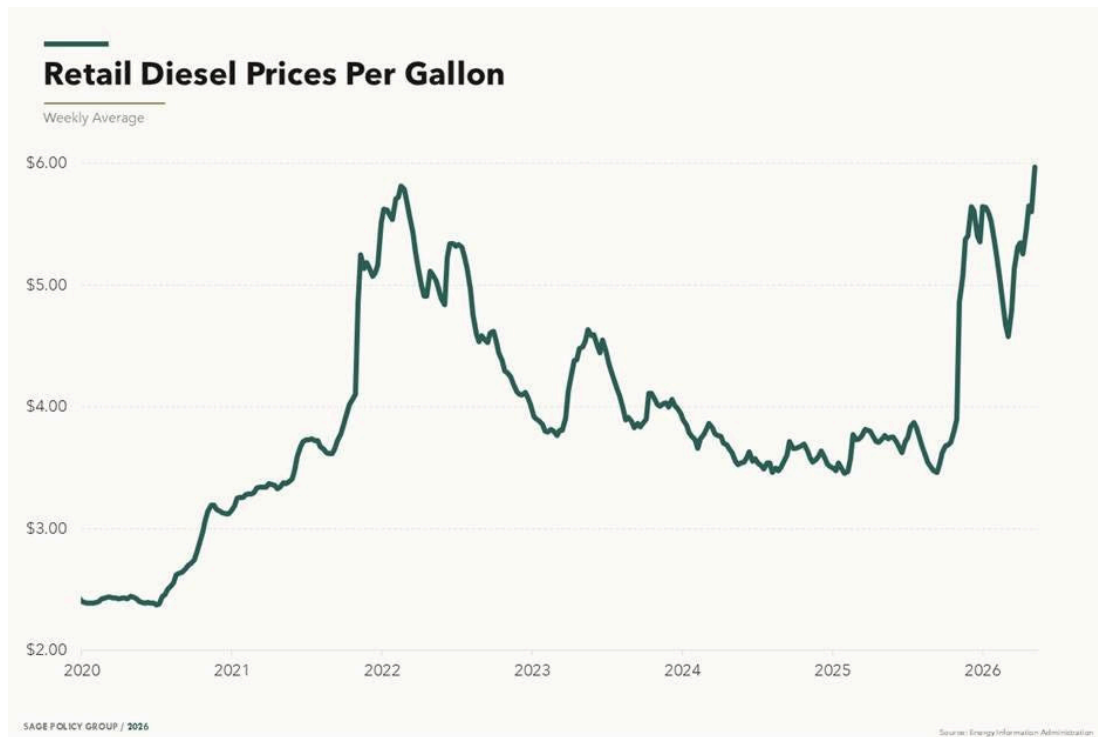
Why are we opening this economics newsletter with apples? To lighten the mood before diving into what was a fairly dismal week of news and data.

Inflation? High. Treasury yields? Highest in decades. Diesel prices? Highest ever. With no end in sight to the trade war with Canada and the technically-not-a-war with Iran, a rate hike now looks all but certain at the Fed's meeting next week.

Tuesday

Oil Stuff

Diesel prices surged to an all-time high this past week, with real-time data showing the national average now above \$6.00/gallon for the first time ever. Diesel hit \$9.99/gallon at some pumps in California and presumably would have gone higher if the signs could accommodate another digit.



Gas prices also rose and, at \$4.30 per gallon, have never been this high this late in the year.

Given that oil prices have surged back to around \$100/barrel, gas and diesel prices will likely rise again next week.

Needless to say, this is bad news on the inflation front.

NFIB Small Business Optimism Index

Small business owner optimism worsened in August but is still in relatively decent shape. The comments on these surveys tend to be more interesting than the reading itself, and this one was no exception. Big issues are difficulty finding good workers, high interest rates, and uncertainty.

TSA Checkpoint Travel Numbers

It was a fairly strong Labor Day weekend for air travel, according to [TSA gate check numbers](#), but the total number of flyers is still down about 3.5% since the middle of August.

Wednesday

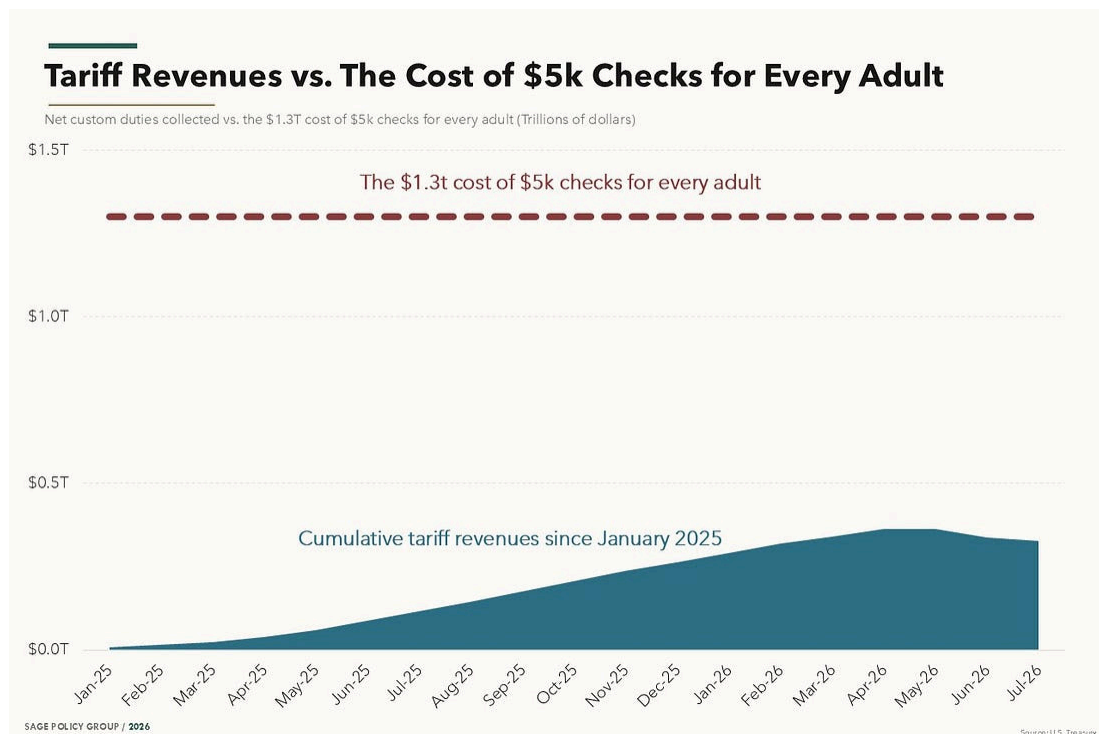
Mortgage Applications

[Mortgage applications](#) fell again, continuing their downward trajectory. Given rates, don't expect this to change anytime soon.

Thursday

President Trump Promises \$5,000 Stimulus Checks

[President Trump](#) vowed to send every U.S. adult a \$5,000 check, just as long as the GOP holds the House in November's election. He suggested the checks would be paid for with tariff revenues, but given the \$1.3 trillion estimated cost, that's not going to work out.



Aside from tariff revenues not covering the cost of such a stimulus package, this would 1) require congressional approval, 2) drive up inflation, 3)

massively add to the national debt, and 4) be as unlikely as all the previously promised stimulus checks that didn't materialize.

Producer Price Index

Prices received by domestic producers rose pretty sharply in August, with the increase concentrated in goods rather than services. This is less important than the Consumer Price Index but still suggests that inflation is picking up.

Existing Home Sales

Sales of existing homes (i.e., not newly built) fell 2.0% in August and are down slightly over the past year. At the risk of sounding repetitive: blame rates.

Mortgage Rates

Mortgage rates rose again. The average 30-year fixed is now up to 6.76% and will be even higher next week.

Jobless Claims

Initial jobless claims stayed low. If you're ever in need of good economic news, this is the place to start (at least over the past year or so).

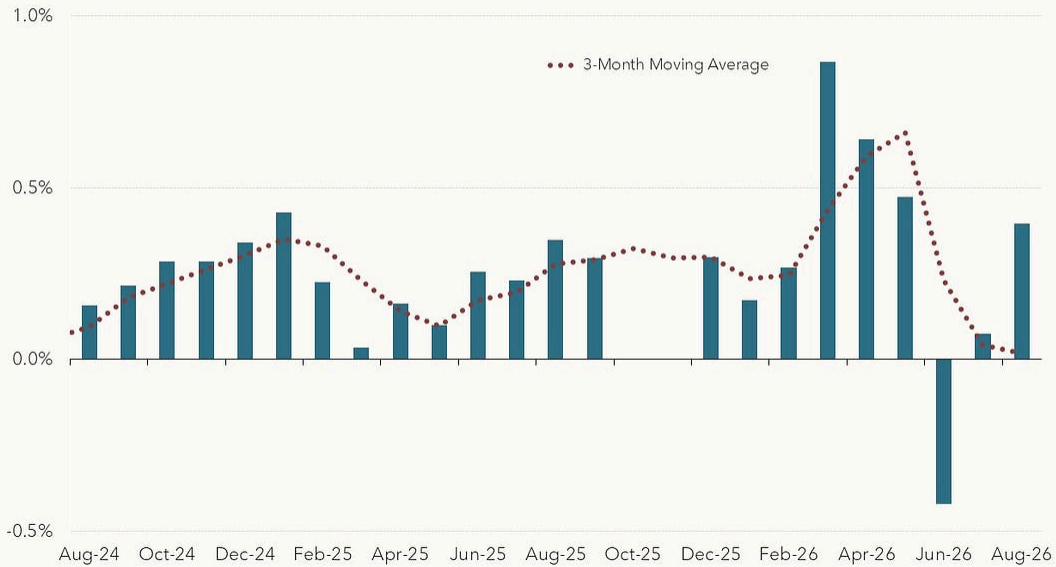
Friday

Consumer Price Index

Consumer prices rose faster than expected in August. The relatively large increase had a lot to do with gas prices, but core prices (excludes food and energy) also jumped, rising at the fastest pace since May. That, combined with the fact that gas prices are now higher than they were in August, is bad news on the inflation front.

Monthly Inflation

Consumer Price Index - Seasonally Adjusted



SAGE POLICY GROUP / 2026

Source: U.S. Bureau of Labor Statistics

The big takeaway: there's now a roughly 90% chance of a rate hike at the Fed's meeting next week, according to markets.

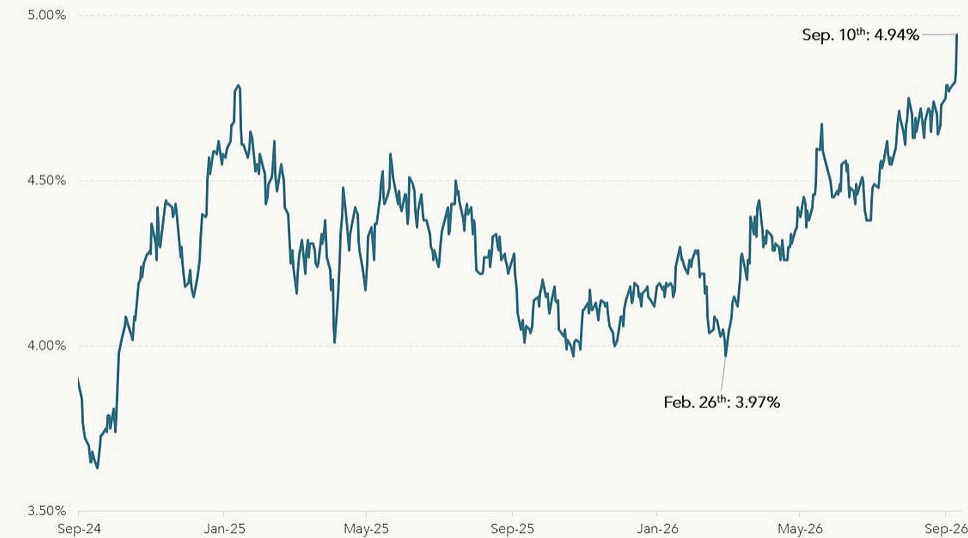
Treasury Yields Keep Ripping

Treasury yields continued to soar this week, with 10-year yields—which heavily dictate mortgage rates—ending Thursday at levels not seen since 2007 (with the exception of a single day in October 2023). While yields have fallen somewhat this morning, they remain well above 4.9%.

Which is to say, borrowing costs are not falling in the near future.

Treasury Yields Rip

U.S. 10-Year Treasury Yield



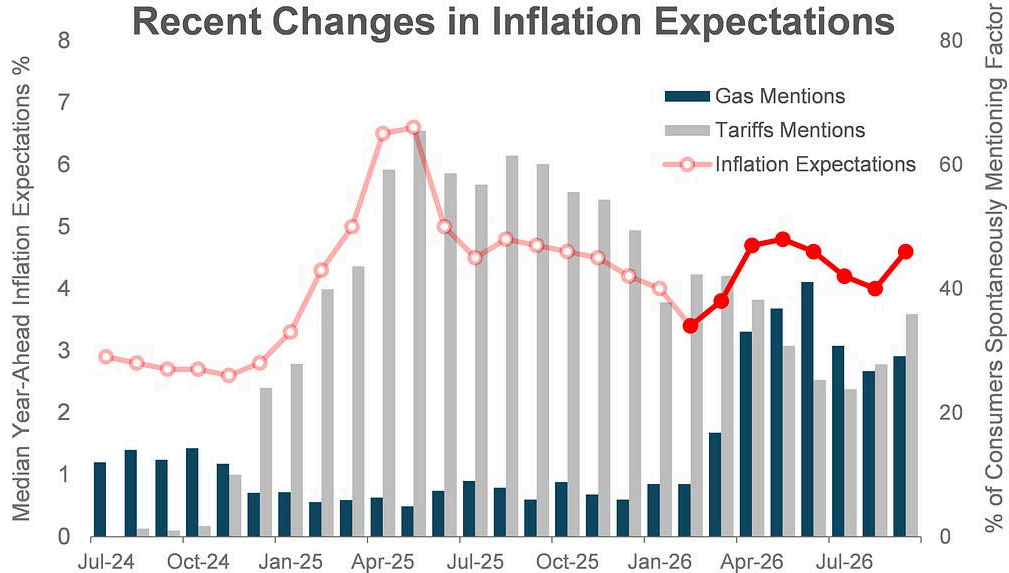
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Source: Board of Governors of the Federal Reserve System

University of Michigan Consumer Sentiment Index

Consumer sentiment fell pretty sharply in early September, and inflation expectations jumped to the highest level since June. Unsurprisingly, this has a lot to do with tariffs and oil prices.

Gasoline and Tariff Concerns Both Drive Recent Changes in Inflation Expectations



University of Michigan, September 11, 2026

Links of the Week

Insuring Against Success? Are Universities Using Prediction Markets to Fund Their Athletic Compensation Schemes? ([Economic Forces](#))

Will AI soon lead to double-digit growth? ([Ghosts of Electricity](#))

Liberalism needs a new philosophy of immigration ([Noahpinion](#))

Final Thoughts

After this week, Anirban's outlook for the economy is: *Worse*

The biggest thing that happened this week is diesel prices rising above \$6/gallon for the first time ever. That's going to create cost pressures throughout much of the economy. As a result, the Fed must hike.

After this week, Zack's outlook for the economy is: *Worse*

Between rising rates and record high diesel prices, there's just not much to like.

Employers Pay More, Workers Get Less

Sage Economics

September 15, 2026

Employers Pay More, Workers Get Less

On rising health insurance costs and compensation dynamics

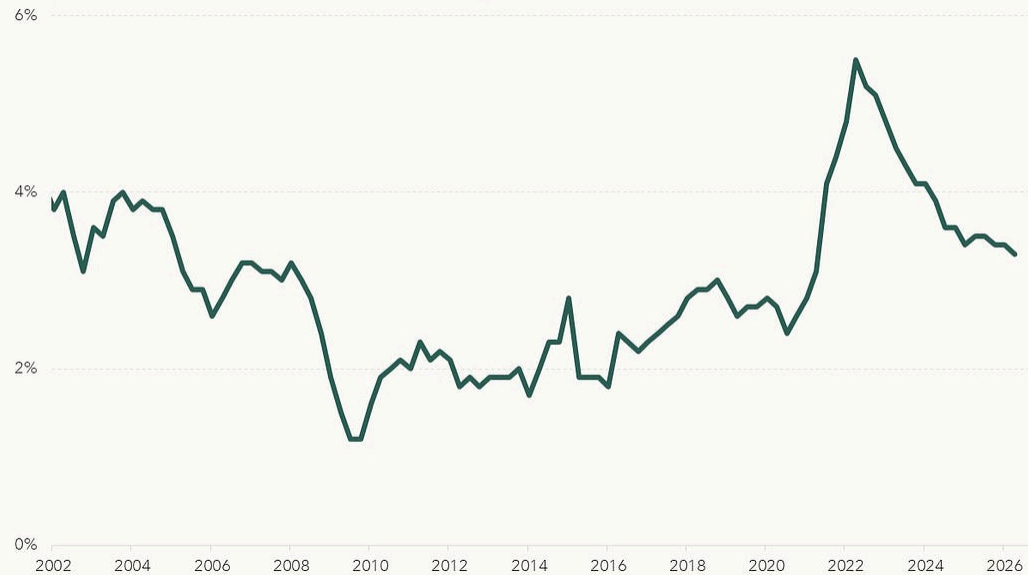
ZACK FRITZ & ANIRBAN BASU



Higher worker-related costs usually translate to higher prices so, at least on the inflation front, it's good news that labor cost escalation has cooled considerably since the middle of 2022.

Labor Cost Escalation Cools

Employer Cost Index · Private worker total compensation, 12-month % Change



SAGE POLICY GROUP / 2026

Source: U.S. Bureau of Labor Statistics

Of course, this sword cuts both ways. Yes, slower labor cost escalation relieves pressure on inflation, but it also usually means smaller pay increases for workers.

Right now, we're getting sliced by both edges. Employment costs—which despite cooling are still up a relatively large 3.3% year-over-year—are rising almost entirely due to surging health insurance prices. Wage and salary growth has slowed to roughly pre-pandemic levels.

No Thanks to Health Insurance Costs

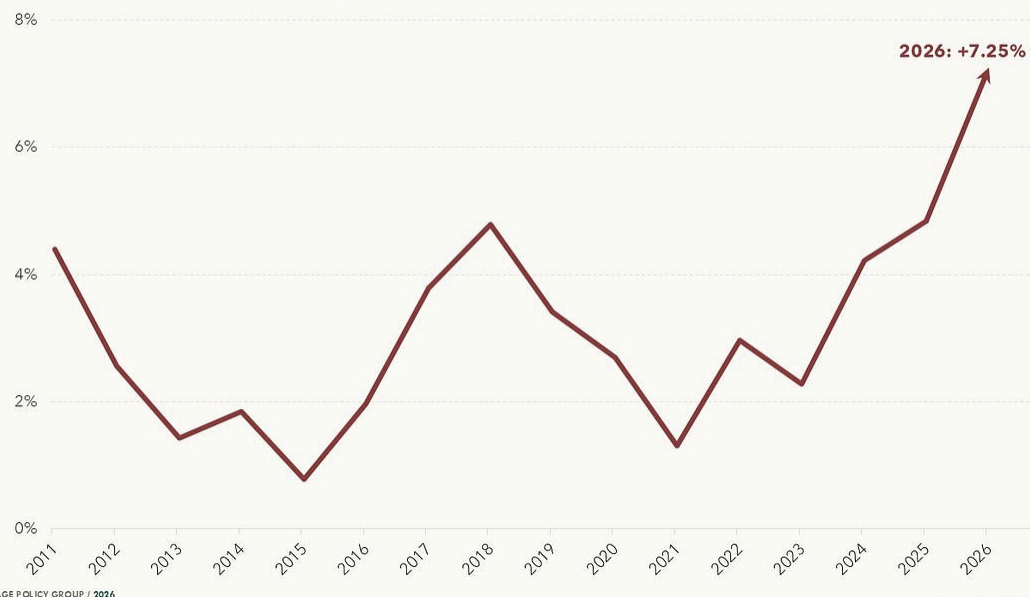
Employer Cost Index • Private workers, 12-month % Change



The prices received by health insurers (a slightly different measure than costs incurred by employers) jumped 7.25% from January 2025 to January 2026. That's the largest annual increase in at least 15 years.

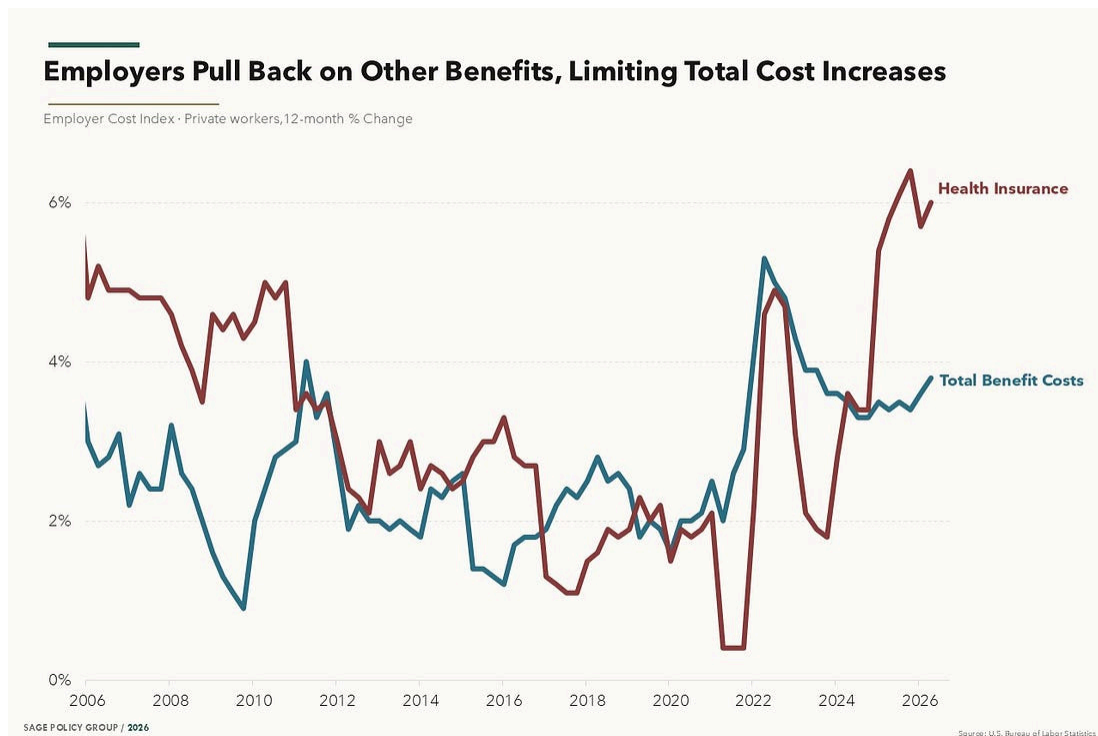
Prices Received by Health Insurers

Producer Price Index • 12-month % Change for January of each year



About 4 in 10 employers have cut spending on other benefits in response to rising health insurance costs, according to this [Mercer survey](#). As a result,

total employer benefit costs have risen at a far slower pace than health insurance costs.



Two-thirds of employers are planning to raise the percentage of health insurance premiums paid by their employees in 2027, further reducing net compensation.

Which is to say, both employers and employees are taking higher health insurance costs right on the chin.

This isn't getting better anytime soon

Employers expect medical plan costs to increase another 10% in 2027, according to IFEBP. What's driving the increase?

There are a few smaller factors at play—like increased mental health utilization, an aging workforce, and AI's ability to help providers more efficiently submit claims—but those are fairly minor compared to the two big cost drivers.

First: prescription drug costs are a substantial cause of cost increases, with none bigger (or newer) than GLP-1s (e.g., Ozempic). Just 3% of U.S. adults

used a GLP-1 for weight loss in 2024, according to Gallup, but that share shot up to 11% in 2026.

About half of all large employers covered GLP-1s in 2025, according to the aforementioned Mercer survey, but 6% are dropping it in 2026 and another 5% plan to do so in 2027.

Second: catastrophic claims are an even bigger driver than prescription drugs. While the cause of these massive claims (cancer, pre-term birth, rare genetic conditions, etc.) aren't increasing in frequency, the costs they generate are.

Million-dollar claims rose 46% from 2022 to 2025, according to Sun Life. That has a little bit to do with inflation and a lot to do with new treatments.

Consider Elevidys, a gene therapy used to treat Duchenne muscular dystrophy that costs \$3.2 million for a single infusion. It doesn't take many \$3.2 million treatments to drive up insurance costs across the board.

To be clear, it's good that we're coming up with new treatments and therapies. Good, but expensive.

Final thoughts

Health insurance costs are going to keep increasing over the next few years. Employment costs will continue to rise at a faster-than-ideal pace, and employers will keep trimming benefits, shifting costs to employees, giving smaller raises, and bumping prices as a result.

Taller Rates Week in Review

Sage Economics

September 18, 2026

Taller Rates Week in Review

Rate hikes, rising yields, oil, & more

ZACK FRITZ & ANIRBAN BASU



With this week's rate hike, the federal funds rate has now been tracking the Fed chair's height for more than 45 years. If President Trump wanted lower interest rates, he clearly should have nominated someone shorter (Kevin Warsh is 6'1).



In addition to a rate hike, this week brought us surging treasury yields, a slew of bad housing stats, signs of ongoing consumer strength, and more.

Monday

Oil Stuff

Oil prices remain above \$100/gallon, so it was another bad week on the fuel-price front. Diesel prices keep surging, up to another all-time high at \$6.29/gallon, and gas prices shot up to \$4.46/gallon, which is by far the highest they've ever been this late in a year.

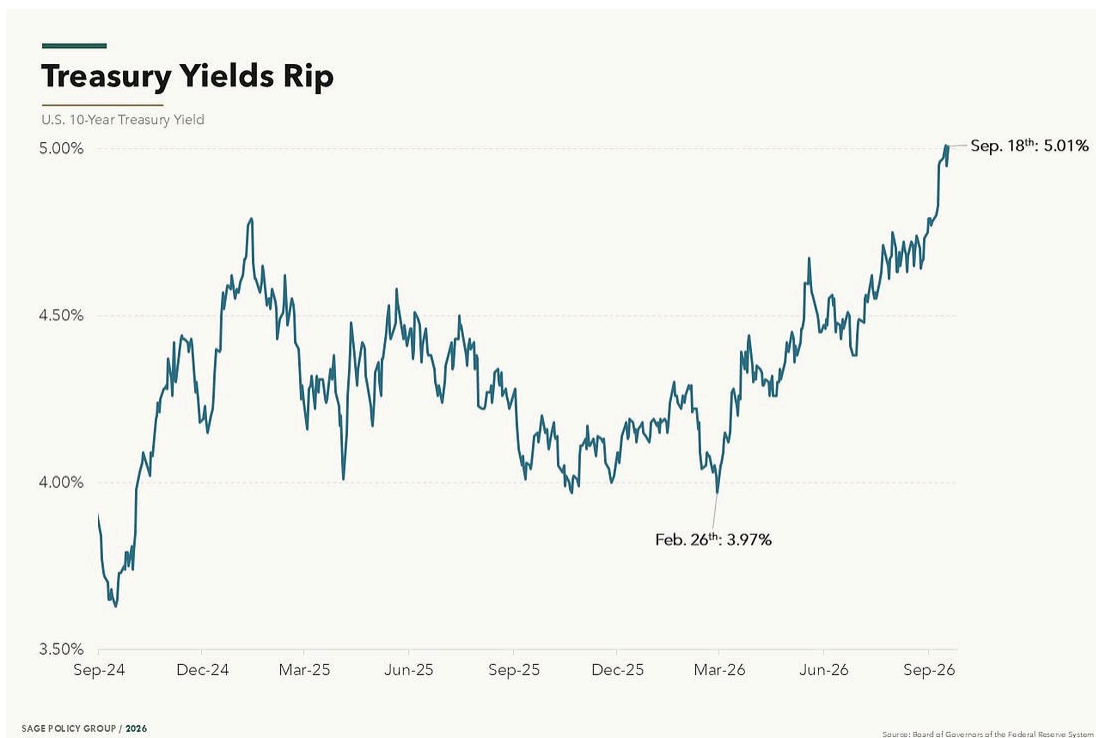
TSA Checkpoint Travel Numbers

After a strong labor day, the number of people flying has fallen back to about 3% below year-ago levels, according to TSA gate check numbers. This could be a warning sign about consumer health, or it could be the isolated effect of significantly higher airfares, which are up about 28% since November according to the Consumer Price Index.

Tuesday

Treasury Yields Keep Climbing

Treasury yields surged again at the start of this week, with the 10-year climbing to levels not seen since 2007. Notably, yields were largely indifferent to the Fed rate hike (more on that below).



The takeaway here is that borrowing costs are going to keep rising.

Wednesday

Fed Interest Rate Decision

The Fed unanimously voted to raise the target range of the federal funds rate by 0.25 percentage points (AKA 25 basis points) at its [September meeting](#). This is the first rate hike since 2023.

[Want a refresher on why/how the Fed moves interest rates? Check out our [Very Basic Primer](#)]

The Fed has two mandated tasks: keep unemployment low, and keep inflation at a 2.0% annual rate. Unemployment is in good shape, but inflation keeps moving up and away from that target, so the Fed is trying to squash some economic activity in the hopes that lower demand leads to lower prices.

Kevin Warsh, the newly appointed Fed chair, voted with the committee to raise rates. Despite ongoing pressure to lower rates from the White House, [President Trump told Warsh](#), “you might as well vote with the board because it’s not going to matter.”

Markets knew this hike was coming and were largely unmoved by the announcement.

Fed Economic Projections

The Fed released updated economic projections for 2026-29. Compared to June, they expect:

- Faster economic growth
- Lower unemployment
- Slightly faster inflation
- A materially higher federal funds rate

Notably, the median forecast expects there to be one more rate hike in 2026.

Retail Sales

Retail spending grew rapidly in August, rising 1.2% from July. The increases were widespread, with spending growing in virtually every retail category tracked by the Census Bureau.

The one exception to that was home improvement stores, which saw their second straight monthly spending decline. Chalk that up to higher mortgage rates and fewer home sales (more from Zack on that on Thursday night's Marketplace).

This is yet another sign that the demand side of the economy is doing just fine.

NAHB Housing Market Index

This measure of homebuilder confidence fell to a 12-month low in September and is extraordinarily low by historical standards. Needless to say, high and rising mortgage rates are a major blow to homebuilders.

Mortgage Applications

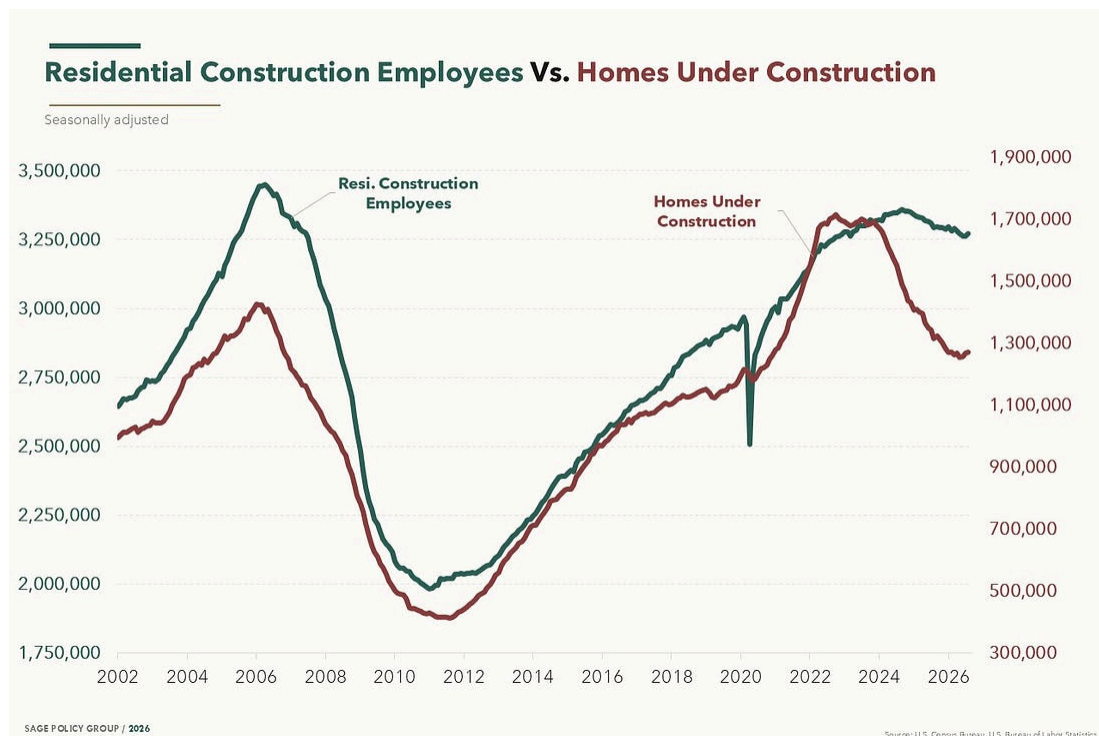
Mortgage applications plummeted this past week, with purchase applications down almost 20% from the same week one year ago. It's getting pretty bleak in the housing market.

Thursday

New Residential Construction

Both housing permits and starts fell in August, which is no surprise given everything else going on with the housing industry.

What is a bit of a surprise: the number of homes currently under construction increased for the third straight month and appears to have leveled off after a multi-year period of sharp decline. It remains to be seen if this trend will be reflected in broader residential construction spending/hiring.



Pending Home Sales

Pending home sales, which are supposed to tell us what actual home sales will look like in a month or two, increased in August but were still down about 5% compared to the same month last year. Given the recent and rapid rise in mortgage rates, it seems likely that some of these pending sales will fall through due to financing difficulties.

Mortgage Rates

Mortgage rates jumped again, and the average 30-year fixed is now up to a 20+ month high of 6.95%.

Jobless Claims

Initial jobless claims fell back below 200,000 this past week, which is just absurdly low. Absolutely nothing to worry about here.

Friday

Industrial Production

This measure of how much U.S. manufacturing, mining, and utilities produce was unchanged in August but remains up a healthy 1.4% year over year. This is one of the indicators that the NBER uses to diagnose a recession, so even slow annual growth is a good sign.

Links of the Week

A \$100,000 tax on foreign students means fewer opportunities for American workers (Agglomerations)

The mechanics of an AI pause (The Argument)

What Regulatory Capture Actually Looks Like (Marginal Revolution)

Final Thoughts

After this week, Anirban's outlook for the economy is: *Worse*

Many of the things we wanted to happen for the economy are simply not occurring. We wanted lower inflation. We wanted lower interest rates. Instead, the inflation numbers continue to come in hot and the Fed's back to hiking.

After this week, Zack's outlook for the economy is: *A little worse*

I'm not worried about a recession. I am worried about rate-sensitive segments like housing.

Summer 2026 Q&A

Sage Economics

September 22, 2026

Summer 2026 Q&A

You asked, we answer

ANIRBAN BASU & ZACK FRITZ



Thanks for submitting questions. We got way more than we could answer (if we didn't get to yours, shoot us an email and we'll try to respond). This Q&A starts with Anirban's responses to some wide ranging questions and ends with Zack's responses to the data center/AI/climate change ones.

Anirban's Answers

With TSA numbers lower in 2026 than in 2025 and higher gas prices, how do you see domestic travel developing over the next 12 months?

I think air travel stands to be weak. Airfares have climbed rapidly, in part due to jet fuel prices, but also because of trimmed capacity. United Airlines slashed nearly 5 percent of its planned domestic seat capacity for a significant segment of the summer. That removed more than 23,500 domestic flights from July through early September.

My guess is that many families are shifting away from fly-to destinations to drive-to destinations. They save on airfare and by staying closer to home probably save on some other costs as well. We understand why this is happening, don't we? Inflation remains high, job growth has become more erratic, and wage growth has softened.

“Aging in place” and a gray “tsunami” coupled with fast rising home prices are a big problem. What are the economics of ADUs and other similar measures? How can we provide for individuals, young couples, etc. to be aligned with an aging population for housing needs?

ADUs are accessory dwelling units. The number of units is rising across much of the nation (zoning/codes can frustrate development). Los Angeles County, for instance, reached a milestone with 10,000 ADUs constructed in 2025. According to Mesocore, the ADU market will expand from around \$20 billion today to \$43 billion by 2034.

With housing affordability shrinking and elderly population rising, ADUs represent a GREAT way for families to save money, provide support and companionship for the aging, and to enhance property value. These units can also be used to support young people not yet ready to leave the nest. Expect more ADUs, but also expect more community opposition to them since they also can be used as rentals.

What do you think of the statement: “Mercantilistic economies like China & South Korea, export unemployment?”

Look, I get it. We have been running large trade deficits with a number of societies. That may or may not be an indication of unfair trade. I'll admit to liking the concept of free trade, but fair trade needs to be part of that bargain. I think America has made its point. If we are to open our markets to others, they must in turn open their markets to our manufacturers, service providers, etc.

Without question, unfair trade has hurt American manufacturing in recent decades. That has produced unemployment in industrial communities across the nation. Tariffs are viewed as a mechanism by which to reindustrialize America. But I think there are other ways that are more productive, including training of a 21st century industrial workforce, better zoning to allow industrial

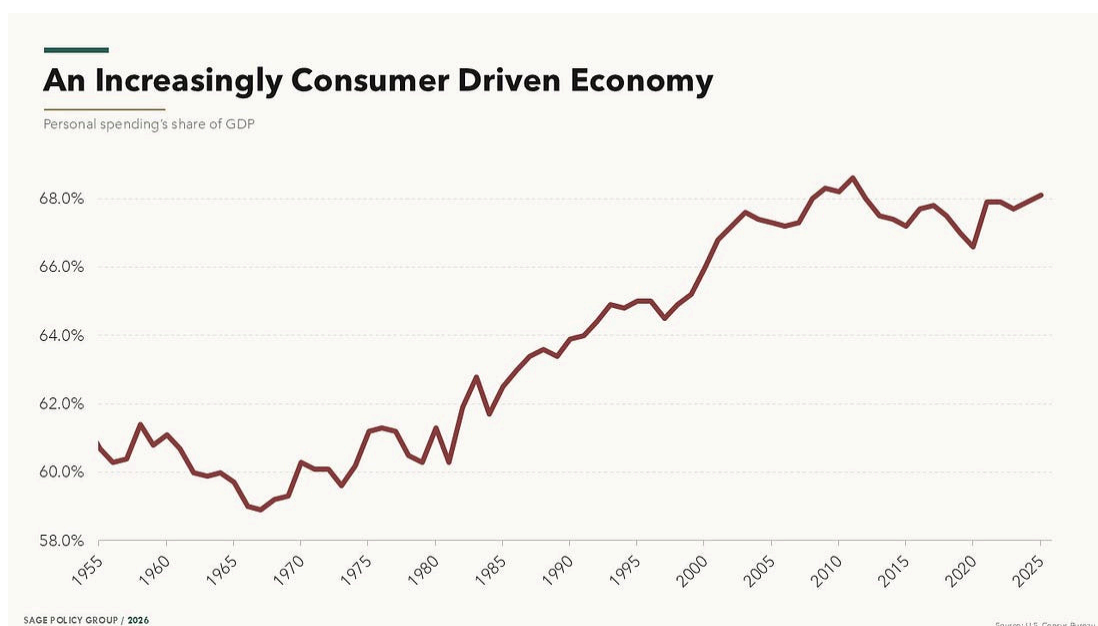
development, much lower electricity rates (c'mon America), and stepped up documented immigration of those in other nations that are critical to manufacturing, including engineers.

The consensus GDP growth forecast for 2026 remains in the 2% area. Industrial Production has been improving recently. Is it fair to consider this trend as supporting or confirming the sturdy 2% growth expectation?

Statistically, industrial production encompasses the real physical output of manufacturing, mining, and utilities. With America reindustrializing, expansion in industrial production stands to be a support for overall GDP growth for many years to come. If one looks at construction employment growth over the past two years, the region that has grown the most over the past two years among the 25 most populous metropolitan areas in the U.S. is Houston. That says a lot.

At the same time, the manufacturing industry has lost 265,000 jobs since the start of 2023, and ask any manufacturer: it's painstakingly difficult to fill industrial jobs these days.

More broadly, industrial production simply isn't the economic driver it once was. Instead, it's the U.S. consumer who has taken the wheel.



So while reindustrialization will certainly help support growth, it's far from the more important factor influencing forecasts.

Could you talk about the impact of demographics on the sturdiness of consumer spending, specifically as it relates to the “Graying” of America.

According to Federal Reserve data, Baby Boomers (born 1946-64) represent less than 20 percent of U.S. population, but hold a bit more than half the wealth. This group is no longer spending on college tuitions (probably – maybe as grandparents I suppose), and has seen their property values explode and their financial portfolios bulge. A few decades ago, we could not have imagined the asset price appreciation that has transpired. These folks are collectively far wealthier than anticipated.

It has also been a very fortunate generation, with many enjoying their peak earnings during the fabulous eighties and nineties. So they spend. But that also means that the places they're leaving (New York, California, Maryland, etc.) are losing a lot of spending power while the places they're going to (Florida, Arizona, South Carolina, etc.) are experiencing benefits of the bulge.

Homes are too expensive and that is unlikely to change since demand exceeds supply of affordable homes. Could commercial to residential conversions be the answer? Do you know of examples or stories of where this is happening that could help affordable living?

There are of course many examples of commercial to residential conversions, but often those conversions have been associated with higher rents. After all, these conversions are often wickedly expensive and these buildings are often in very prestigious parts of cities (e.g., historic central business districts). Given the cost of labor, construction materials, and elevated interest rates, I think it will be rare for commercial conversion to translate into affordable housing. An exception to this might be vacant shopping centers. Often, redeveloping these into living spaces is a bit less expensive, there is surface parking all around, and residential units are often quite small. That seems like a decent recipe.

I thought the DMV economy would crater as a result of DOGE’s DRP resignations, presumed migration out of the area, and some government contracts that were terminated abruptly in 2025. But it hasn’t, or at least it doesn’t feel like it has. Why not?

Actually, I think the DMV economy has taken a major wallop. Among the 25 most populous metropolitan areas, none has lost jobs at a faster clip than the Washington metro. Somehow, there is still a lot of traffic, but we’ve suffered massive job loss and the local federal contracting community has been severely impacted. I wouldn’t say the economy has cratered, but it has taken a major step backwards.

D.C. MSA Last Among Top 25 in 2-Year Job Growth

August 2024 vs. August 2026 · Thousands of Jobs (Seasonally Adjusted)

Rank	MSA	%	Rank	MSA	%
1	Austin-Round Rock-San Marcos, TX	3.2%	14	Miami-Fort Lauderdale-West Palm Beach, FL	0.6%
2	Charlotte-Concord-Gastonia, NC-SC	2.9%	14	San Antonio-New Braunfels, TX	0.6%
3	Dallas-Fort Worth-Arlington, TX	2.1%	16	Seattle-Tacoma-Bellevue, WA	0.5%
4	Houston-Pasadena-The Woodlands, TX	1.9%	17	San Diego-Chula Vista-Carlsbad, CA	0.4%
4	Riverside-San Bernardino-Ontario, CA	1.9%	18	Denver-Aurora-Centennial, CO	0.2%
6	Minneapolis-St. Paul-Bloomington, MN-WI	1.8%	19	St. Louis, MO-IL	0.1%
7	Philadelphia-Camden-Wilm., PA-NJ-DE-MD	1.6%	20	Atlanta-Sandy Springs-Roswell, GA	0.0%
8	Orlando-Kissimmee-Sanford, FL	1.5%	20	San Francisco-Oakland-Fremont, CA	0.0%
9	Phoenix-Mesa-Chandler, AZ	1.0%	22	Boston-Cambridge-Newton, MA-NH	-0.7%
9	Tampa-St. Petersburg-Clearwater, FL	1.0%	23	Detroit-Warren-Dearborn, MI	-0.9%
11	Los Angeles-Long Beach-Anaheim, CA	0.8%	24	Baltimore-Columbia-Towson, MD	-1.2%
11	New York-Newark-Jersey City, NY-NJ	0.8%	25	Washington-Arlington-Alex., DC-VA-MD-WV	-2.7%
13	Chicago-Naperville-Elgin, IL-IN-WI	0.7%	-	U.S. Total (SA)	0.8%

SAGE POLICY GROUP / 2026

Source: U.S. Bureau of Labor Statistics

What would YOU recommend to solve Social Security and what do you think is the most politically viable solution?

Obviously, we can continue to raise retirement ages as one partial solution. But that’s hardly enough. Even with that, the Social Security Trust Fund is set to become insolvent by the end of 2032.

So we have to do more. The most obvious thing would be means testing. We probably need to treat Social Security as genuine social insurance. For those who made a lot of money over their careers (those who won capitalism), we

may need to harshly limit payouts. Oh, I know that's not popular. I'm not running for office. I'm just trying to answer your question.

We could also (more controversy forthcoming) step up documented immigration. We need more taxpayers. Rather than taking more out of the paychecks of the young, it might be nice to have more people paying into the system.

I believe that we are creating a caste society. The tax reform that significantly increased the standard tax exemption reduced the tax incentive for home ownership - the wealthy will own property and build generational wealth, the others will be renters for life. And, expanding 529 accounts down to primary education (not just secondary) provides the wealthy (the better off?) with tax incentives/advantages to send their children to private school - further separating the have's from the have not's. Thoughts?

I agree that America is bifurcating. When I was growing up in a farm town in Illinois that also happened to have a regional medical center, there was a large middle class. There weren't that many really rich people and there weren't that many really poor people (more poor than rich, though). That community, Kankakee, Illinois, also had a sizable manufacturing base (I played little league baseball for the Massey Ferguson Tractors). Between agriculture, healthcare, and manufacturing, there were plenty of middle income jobs.

But during the intervening decades, asset values have surged. Those who owned those assets have become far wealthier. Various technology cycles have further concentrated wealth. There was no Google when I was growing up, no iPhone, no Internet, no commercialized artificial intelligence, etc. While stockbrokers made plenty back then, it was nowhere near what leading financiers make today.

So wealth has become hyper concentrated. Many of the young, in particular, are falling behind. That is why they are opting for democratic socialism in many instances—they don't think the system is fair and they don't think they can make it. And it's going to get worse with AI standing to dislocate many

young people while enriching others. Bottom line: at some point, politics in America are going to change, and not in a way that favors free enterprise.

What are some items/policies that the governor could quickly change to encourage businesses to invest in Maryland?

I don't know if you've noticed, but Maryland has suffered a spate of layoffs recently. Among them are Amentum, a defense contractor in Anne Arundel County that filed notices to lay off 382 workers; Crosby Marketing Communications in Annapolis, which is cutting 20 workers; WBAL NewsRadio; WMAR-TV; the University of Maryland, College Park (84 State-funded employees); Stanley Black & Decker, which is closing its Carroll County manufacturing facility eliminating 55 jobs; Thriftbooks, which is closing its Baltimore County warehouse and laying off 136 workers; and Savista, a global company that assists hospitals and medical practices manage billing, insurance, etc. – the company plans to lay off 39 employees in Bethesda.

In my judgment, Maryland's standard of living is in sharp decline. The state was hammered last year by federal government and spending cutbacks that took the form of steep agency layoffs and diminished funding for research and nonprofits. Many of our most successful citizens are leaving, whether for Florida, Delaware, South Carolina, etc. So what can a governor do? Two things come to mind.

1. Cut the corporate tax rate—at 8.25%, it's not competitive. We need to attract much more private investment to offset diminished federal support;
2. Get that bridge up already—I figured the State of Maryland would botch this. The Key Bridge collapsed in March 2024. Two and a half years have passed and there simply has not been enough progress. Cost estimates are spiking, and of course they are. Of course, Maryland isn't alone here. The federal government has actively hindered efforts, and the White House's trade policy is the primary factor behind those rising cost estimates.

Zack's Answers

If you were advising a local government that was considering a moratorium on new data centers, what would you tell them?

I'd tell them:

First: It's their job to convince local residents that data centers are a good idea. These debates have shown me that people simply do not care if their county is going to reap massive tax benefits several years down the road. Maybe they don't trust the officials to spend that money wisely. Maybe they don't even plan to live there a few years later.

It's really great if a county can pay for a new school in cash instead of financing it, but does that matter to the average voter? Probably not.

So what would move the needle with constituents? Well, the idea that data centers will allow tax cuts—like we've seen in Loudon County—is pretty appealing. And while that won't be feasible in many cases, specifically enumerating what the county plans to do with the new revenues would be a good first step.

Second: they need to stress that data center-supported tax revenues really are *transformative*. Look at Quincy, Washington, a farming community of about 8,000 people. About 60% of the town's property tax revenues now come from data centers, and that has paid for a new high school, hospital, library, police and fire station, and other infrastructure upgrades.

Or look at the rural Louisiana school district whose teachers will get \$50,000+ bonuses (!!!) because of data center-related tax revenues.

Fourth: while a lot of the arguments against data centers are overstated, acknowledge that they do need to be situated correctly. There are a few that most definitely are not (the xAI Colossus data center in Tennessee comes to mind...), and this sucks both for the people near them and broader efforts to build more data centers.

Big picture, data centers have to go somewhere, and local governments might regret it in a decade or two if they don't capitalize on capturing those tax revenues.

How are “temporary” data center moratoriums impacting local economies?

In the short term, the effects are likely limited to less construction activity (there’s a reason unions are extremely pro data center).

To the extent these moratoria are indeed temporary, longer-term impacts *could* be pretty small. But that’s assuming that developers don’t abandon the potential data center projects that are delayed by the moratoria.

What sector of labor is most under threat to lose jobs to AI over the next year to 3 years?

First of all, we really don’t know. If you look back at what jobs people thought the internet would disrupt, they were pretty wrong. I think the same thing will happen with AI, and we’ve definitely seen that so far. AI is great at writing code, and yet software developer job posting on Indeed have risen 25% since May 2025.

But if I had to pick, I’ll say administrative office workers. To be clear, I think these jobs will still exist, but there will be fewer people doing them because of how much of it can be augmented by AI.

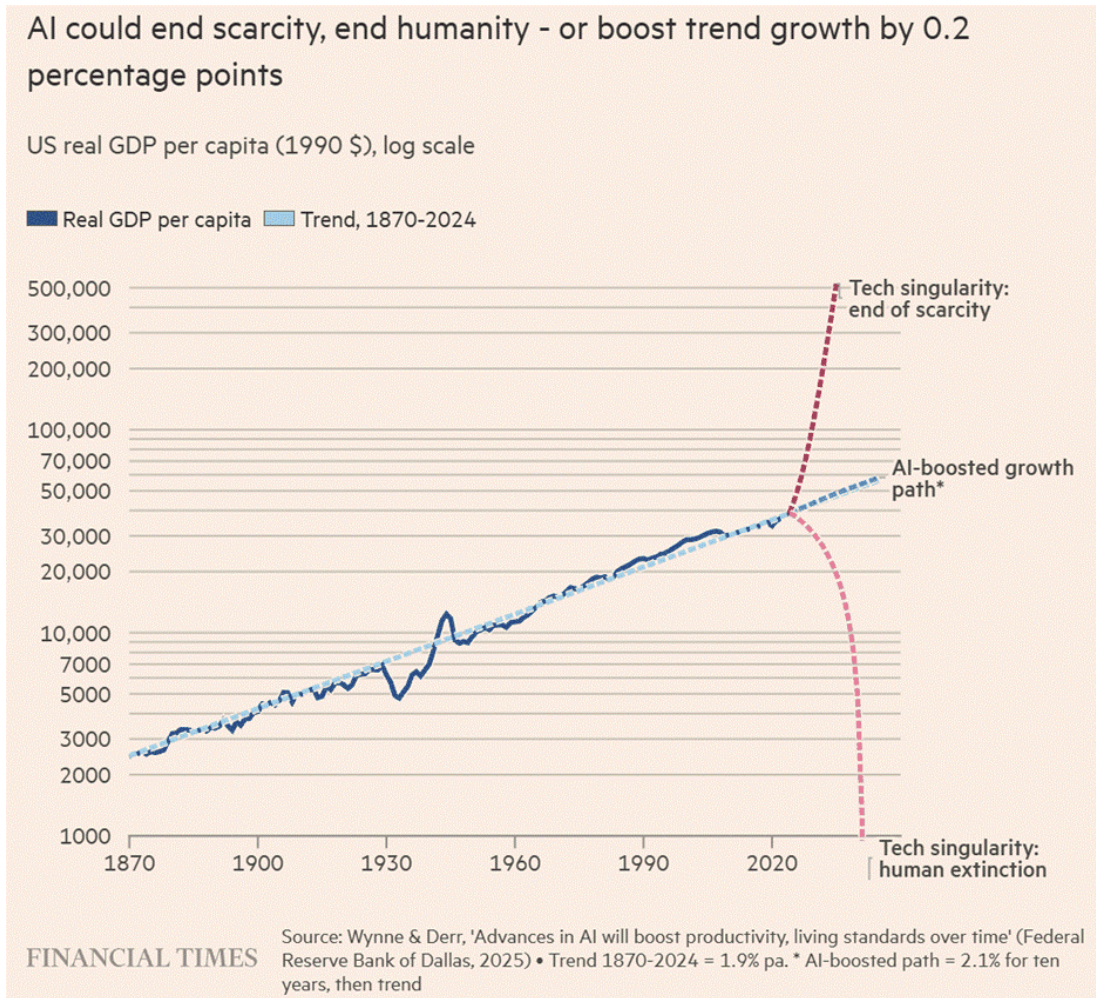
The fields I think are safest are construction and healthcare. For the former, it’s notoriously difficult to make a robot that can lay bricks, and for the latter, regulations and the nightmarish idea of a robot cutting you open are probably going to maintain the status quo for a while (someone else can test the first catheter-placing robot...)

But really, who knows? Maybe AI will come for the economic consultants.

How do you believe artificial intelligence will affect the economy over the next three to five years, particularly in industries that rely on technical expertise and professional services?

The Financial Times published this graph showing the range of outcomes from human extinction to the end of scarcity. So there’s a pretty wide range of

outcomes from here.



I think AI will make people more productive to some degree, and it's going to increase the quality of output in certain sectors.

That said, I don't think the effects will be as transformative as some expect. Can Claude or Chat GPT do a lot of what a business consultant does? Sure, and yet Anthropic (the makers of Claude) just hired Accenture.

I just don't think AI is coming for technical experts in the near term (hopefully those aren't the famous last words of this technical expert), though it may hurt entry-level hiring.

More broadly for the economy, I think people have very different definitions of "transformative." I've seen many predictions of double-digit percentage GDP growth, which just isn't going to happen if you ask me.

A more reasonable—and still *transformative*—outcome is an acceleration of 1 to 2 percentage points of GDP per year over the next half-decade. Sounds like small potatoes, but consider that if Panama had 1.5 pp faster growth since about 1980, it would have higher GDP per capita than the U.S. right now.

How does the potential AI “bubble” compare in size to the dot-com bubble? The numbers at play today seem almost too large to reasonably comprehend.

In some ways—like tech’s share of major stock indices—it’s already larger, and has also spread to more segments of the economy. The dot-com boom didn’t materially impact the construction industry, for instance, but data centers currently account for about 8% of all private nonresidential activity.

But this is way less bubbly than the dot-com boom. In 1999, the valuations on unprofitable companies were just silly. Forward price-to-earnings ratios were like 50x earnings (and higher for a lot of companies). There was just a ton of money flowing into companies that hadn’t proved they could make money. The AI darlings, on the other hand, are huge companies with strong cash flow.

This could change. Ask again next year and my answer could very well be different.

On a macro level, how does climate change affect our economy?

The longer-term effects of climate change are really uncertain, and that means the longer-term economic impacts are also hard to predict. A 2024 Congressional Budget Office report’s central estimate has GDP 3% lower in 2100 than it would have been if temperatures remained unchanged. So, not great, but tolerable.

The higher end estimates from that study are a lot worse, and other studies’ predictions are even more pessimistic.

In the shorter term, a warming climate is going to reduce labor productivity, especially in areas without air conditioning and where a large share of jobs are done outdoors (neither of which really applies to the U.S.). Just 8% of

U.S. workers spend at least one third of their day outside, and 65% don't have to do any work outside at all. The global share is significantly higher.

But the big answer here is that there's not even close to an expert consensus.

What's Next

Next up is Week in Review, our every Friday post that gives you everything you need to know about the economy in a breezy, five-minute read. Week in Review is just for paying subscribers. If that's not you and you want it to be, just click the button below.



Rising Rates Week in Review

Sage Economics

September 25, 2026

Rising Rates Week in Review

Bad news for the housing market, & more

ANIRBAN BASU & ZACK FRITZ



Good news: this week was really light on data releases, and this Week in Review is a particularly quick read.

Bad news: most of the data came from R-rated (bordering on X-rated) releases about the housing market, which just cannot catch a break.



Monday

Oil Stuff

Diesel prices jumped to another all-time high and, at \$6.53/gallon, are just heinously elevated. Gas prices also continued to rise, up to a bruising \$4.61/gallon. That's over \$1.30/gallon more expensive than at the same time last year.

Oil prices fell this past week, so we might see a little relief at the pumps next week, but fuel prices will remain pretty bleak.

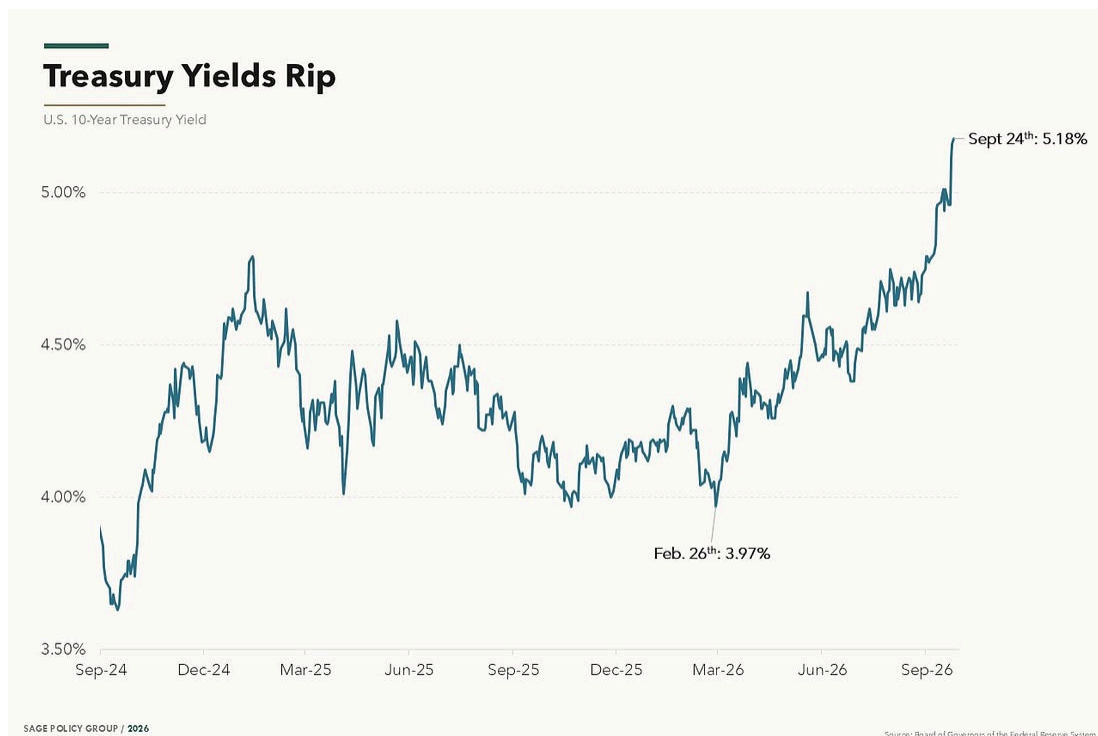
TSA Checkpoint Travel Numbers

Air travel levels have improved slightly, according to [TSA gate check numbers](#), but are still down about 2% compared to the same week last year.

Tuesday

Treasury Yields Rise Even Higher

[Treasury yields](#) kept surging this week, with the 10-year now closing in on 5.2%. The 10-year is a good proxy for borrowing costs, which is to say: it's been a horrific week for rate-sensitive segments like housing.



Wednesday

Mortgage Applications

To absolutely nobody's surprise, [mortgage applications](#) fell sharply this past week. Purchase applications are down 11% from the same week last year, while refinance applications are down a staggering 62%.

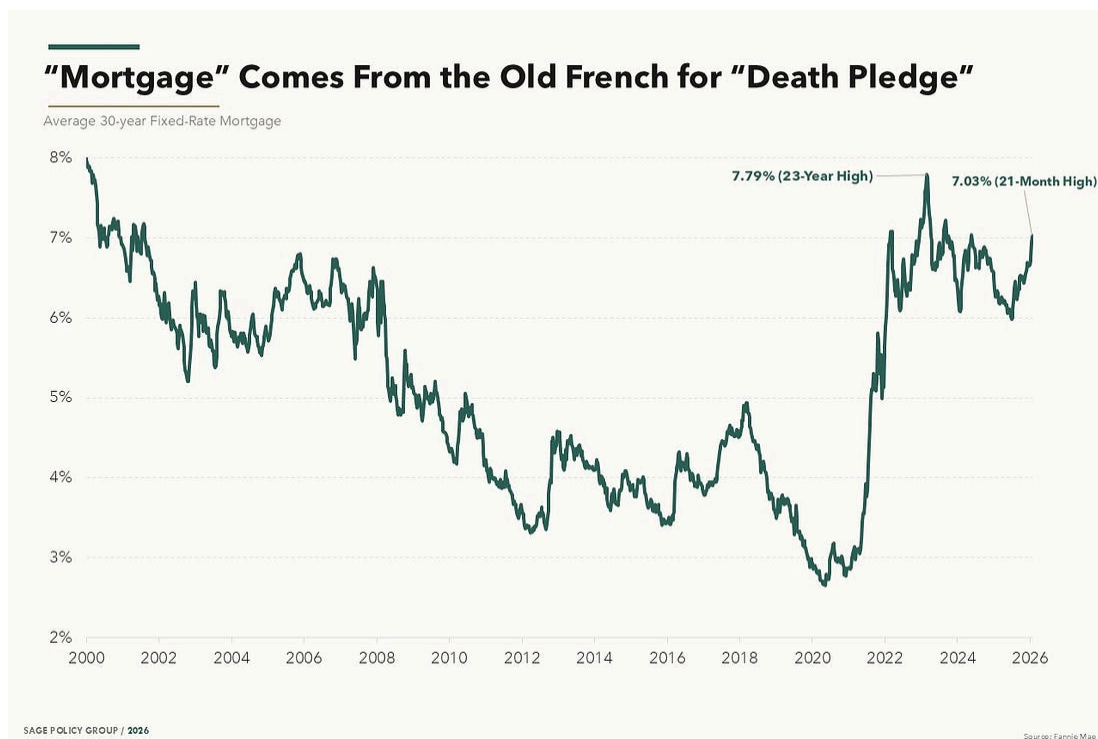
Thursday

New Home Sales

New home sales (that is, newly built) jumped in August and are at the highest level since November of last year. These are right in line with 2019-levels, which might have something to do with the fact that homebuilders are pretty aggressively lowering prices, according to NAHB. Even with homebuilder price cuts and incentives, new home sales are going to fall sharply given...

Mortgage Rates

Mortgage rates surged during the week ending September 24th, with the 30-year fixed up to an average of 7.03%. This is the first time rates have climbed above 7% since early 2025, a fact that is especially painful considering they were below 6% at the end of February 2026.



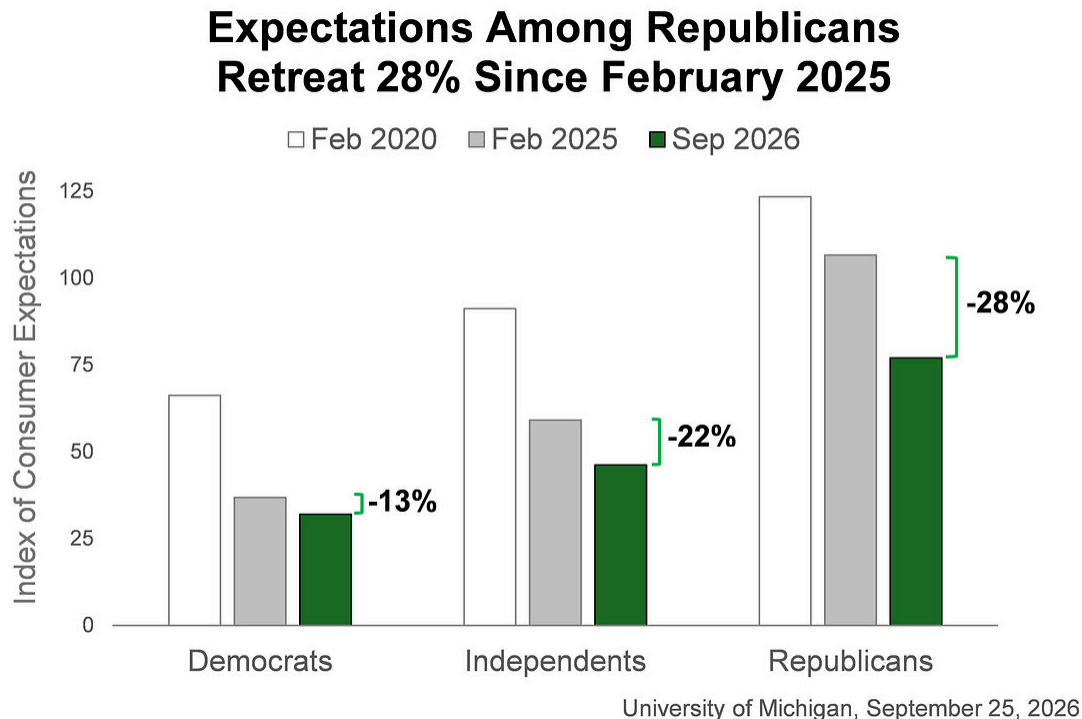
Jobless Claims

Ah, this indicator remains the perfect palate cleanser, a sweet weekly treat that washes away the putrid taste of all this housing market data. Initial jobless claims remained below 200,000, which is an incredibly low level that suggests historically slow layoff activity.

Friday

University of Michigan Consumer Sentiment Index

This important measure of consumer confidence fell 7% in September and is down 13% year over year. The recent decline has been largest among Republicans, which is pretty unusual; the party that holds the White House tends to have far more durable (and elevated) consumer sentiment.



Durable Goods Orders

New orders of durable goods (things that typically last at least 3 years) were unchanged in August but are up a very healthy 7.7% year to date. The growth is pretty widespread across categories, and this part of the goods side of the economy remains in pretty solid shape.

Links of the Week

Data Centers and Butter ([MacroMostly](#))

The politics of panic: Even the optimistic AI take isn't looking so good ([The Argument](#))

Earth fact of the day ([Marginal Revolution](#))

Final Thoughts

After this week, Anirban's outlook for the economy is: *Worse*

This week, yields continued to rise across much of the yield curve, and we heard some very hawkish speech from many members of the Fed. Which is to say, there will continue to be upward pressure on interest rates.

After this week, Zack's outlook for the economy is: *Worse*

The economy is pretty fine, except for those interest rate sensitive segments, which are going to get ground to pulp by rising rates.
