LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

Q3 2026 ECONOMIC REPORT



LEE-ASSOCIATES.COM/RESEARCH

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Q3 2026 ECONOMIC REPORTS

GDP GROWTH: TRENDING IN Q3 2026

The U.S. economy grew at the rate of 3.4% in the third quarter, faster than expected, as business investment in artificial intelligence surged amid healthy consumer spending despite high fuel prices.

Compared to the second quarter, the Commerce Department said the acceleration in the third quarter's gross domestic product primarily reflected an increase in investment and an upturn in government spending that were partly offset by a downturn in exports, which subtract from the GDP.

Sales to private domestic purchasers – the sum of consumer spending and gross private fixed investment – increased 4.9% in Q3 compared with a 4.6% jump in the second quarter.

The government also reported that inflation ticked up 0.5% in September to 3.6%, the largest monthly gain since March. Inflation was 1.4% in 2020 when the measure was last within the Federal Reserve Board's 2% target. It is up from 2.7% in 2025.

The Commerce Department reported that the GDP reading adjusted for inflation and seasonality was the largest quarterly gain in a year, adding to evidence the economy is on firm footing regardless of tariffs, high energy costs and the crackdown on illegal immigration. It was an acceleration from the 2.2% rate last spring.

GDP GROWTH

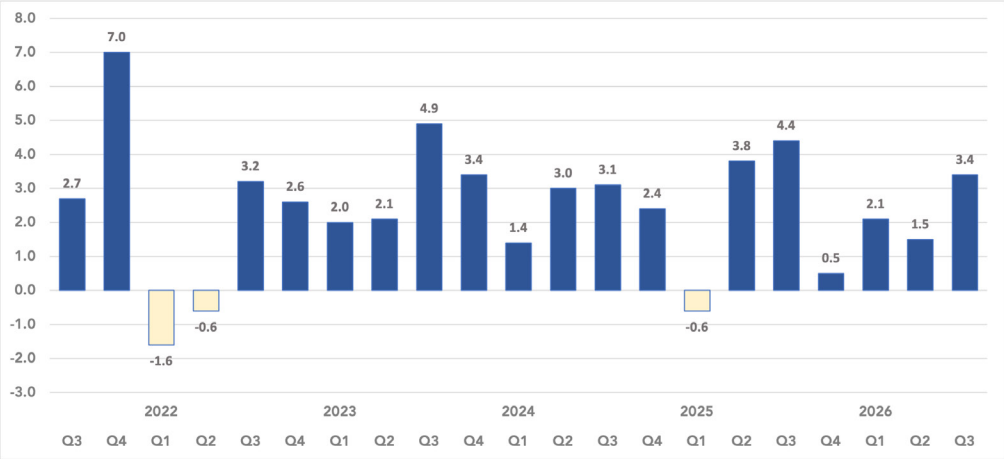
EMPLOYMENT

MONETARY POLICY

GLOBAL ECONOMY

Real GDP: Percent Change from Prior Quarter

U.S. Bureau of Economic Analysis - Seasonally adjusted at annual rates



'This is a hot economy' – Aditya Bhave, head of economics for Bank of America.

"This is a hot economy. The bad news is that inflation is the price we pay for that hot economy, and inflation is going to remain elevated," said Aditya Bhave, head of economics for Bank of America.

Consumer spending – which accounts for more than two thirds of GDP – held steady at the 3.8% rate, equaling the mid-year mark, as outlays gained for autos, household goods, apparel, healthcare, food and travel. The government also said expenditure on imported goods were up more than 25% on an annualized basis, largely because of semiconductor purchases from overseas.

Prices were up 3.5% in the third quarter year over year, propelled by higher fuel costs since the attack on Iran. Energy goods and services jumped 5.4% in September while prices for services – excluding housing and energy – rose 0.4%. Housing increased 0.3% for the month.

Households are digging into savings to stay up with rising costs. Americans saved 4.1% of their income in Q3, the least in almost four years. After-tax, inflation-adjusted income gained in Q3 but fell in September.

Higher-income households are experiencing gains from stock holdings. But real wage growth in the last year, although up significantly, has been undercut by high inflation and is failing to keep pace with worker productivity.

Much of the GDP gains this year were attributed to artificial intelligence-related spending. One estimate from Goldman Sachs projected that AI investment in the U.S. will hit 1.9% of GDP with much of the outlays going to imported chips. The growth has created a boon in construction jobs with the build-out of server farms, offsetting a decline in home-building due to higher mortgage rates, tariffs and AI-related construction that's driving up costs of materials and labor.

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Q3 2026 ECONOMIC REPORTS

GDP GROWTH

EMPLOYMENT

MONETARY POLICY

GLOBAL ECONOMY

EMPLOYMENT: TRENDING IN Q3 2026

The number of unemployed in September totaled 7.1 million workers, producing a jobless rate that came in at 4.2%, remaining in the narrow range of 4.1% to 4.3% since March, according to the Bureau of Labor Statistics.

The labor market is being anchored by low layoffs with sluggish hiring as employers deal with what economists deem as fallout from tariffs and rising prices from the US-Israeli war with Iran.

Layoffs in the U.S. have fallen to a four-year low, while employers' hiring plans are up 3% this year, according to new labor data.

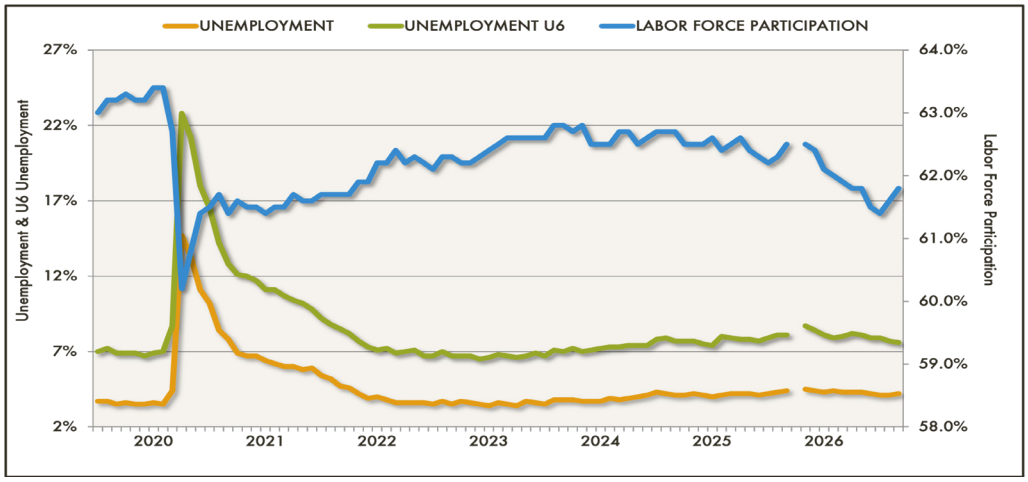
Employers have announced 573,195 job cuts through September this year, a nearly 40% decline from the first nine months of 2025. On a monthly basis, layoffs dropped 20% in September to 43,281 from a year earlier, the lowest level in four years.

The data suggests the labor market remains solid, even if hiring isn't as strong as it was in the post-pandemic years.

"The labor market is somewhere between stable and reaccelerating," PNC Economics analysts said. "We're seeing early signs that wage growth may be picking up again, which could make it more difficult for the Fed to reduce inflation without raising rates."

Non-farm payroll employment changed little for September, up 29,000, following an average monthly gain of

United States Unemployment



Data for Q3 2025 is unavailable due to the Government Shutdown

'The labor market is somewhere between stable and reaccelerating' – PNC Economics

45,000 positions over the prior 12 months. Employment in all major industries also changed little over the month.

Health care employment totaled 17,000 jobs, continuing its upward trend, but at a slower pace than the 33,000 average monthly gain for the last 12 months. In September, employment continued to trend up in ambulatory health care services at 13,000 and by 12,000 in hospitals, while nursing and residential care facilities lost 9,000 positions.

Although qualified nurses' median income since Covid has risen to $97,550 annually, the Wall Street Journal reported that burnout and complaints about understaffing, verbal abuse and workplace violence are pushing many nurses off the front lines and into other careers where their skills are in high demand.

Construction employment changed little in September with 11,000 new jobs, up slightly from the 10,000 monthly average for the last 12 months. Non-residential construction jobs in September were up 11,000 and specialty trades added 12,000 positions.

Manufacturing employment totaled 9,000 in September and is up by 72,000 since a recent low in December 2025. Over the month, employment increased in plastics and rubber products manufacturing totaled 5,000 jobs and by 5,000 in machinery manufacturing.

Financial jobs were down 7,000 jobs for September and are off 129,000 since the peak in May 2025 with most of the job loss, 90,000 positions, in insurance carriers and related activities.

In September, average hourly earnings for all employees on private nonfarm payrolls edged up by 5 cents, or 0.1%, to $37.81. Over the past 12 months, average hourly earnings have increased by 3% percent. In September, average hourly earnings of private-sector production and nonsupervisory employees rose by 7 cents, or 0.2%, to $32.60.

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Q3 2026 ECONOMIC REPORTS

MONETARY POLICY: TRENDING IN Q3 2026

Despite stubborn inflation, the Federal Reserve opted to hold interest rates steady with policymakers expressing a desire to wait for more economic data before tightening the money supply further.

For now, the overnight funds rate remains in the range between 3.75%-4%. But, if current pricing pressures continue, a majority of Fed officials have indicated that another increase in the benchmark rate by a quarter point was likely at their next and last meeting of the year on December 9.

In its statement following the meeting, the Federal Open Market Committee said: "Inflation remains elevated. The accumulation of more information will help the committee determine the policy stance appropriate to ensure a timely return of inflation to the committee's 2% goal. The committee will deliver price stability."

At a news conference following the October meeting, Fed Chair Kevin Warsh said although energy prices have remained elevated since the board hiked the rate rates by a quarter point in September, there are market-based measures showing that inflation recently has eased.

Warsh said he believed the economy continued to show strength and had broadened beyond the enormous sums poured into artificial intelligence-related investments.

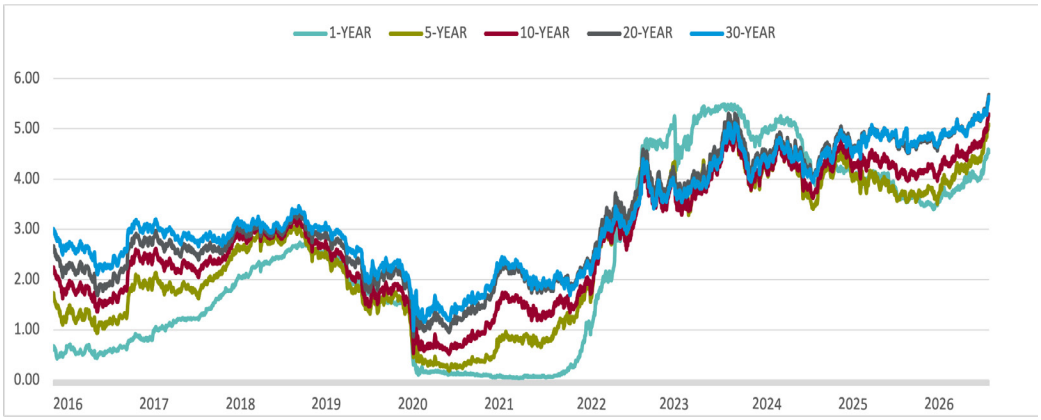
GDP GROWTH

EMPLOYMENT

MONETARY POLICY

GLOBAL ECONOMY

Daily Treasury Yield Curve Rates (Decade Trend)



'The period right in front of us is information rich' – Fed Chair Kevin Warsh

"I feel good about those signposts," Warsh said, adding that there would be greater clarity in the weeks ahead. "The period right in front of us is information rich," he said.

Two of the 12 voting members dissented in the Fed's decision and argued for an incremental increase. Fed governor Lisa Cook and Beth Hammack, president of the Federal Reserve Bank in Cleveland, said a quarter-point hike would avoid the prospect of larger and potentially destabilizing rate increases in the future.

The Fed faces an environment that justifies higher rates. Inflation has been running at more than 3%, unemployment is low and economic growth has been healthy – albeit heavily weighted by exuberant AI-related spending. Observers also point out that the Iran war has caused inflation to move beyond the energy sector into the broader economy.

Appointed this year to lead the Federal Reserve by President Donald Trump, Warsh has described himself as an inflation hawk who would not yield to repeated urgings from the White House for lower interest rates. Since taking the chair, he has altered the central bank's aspect on public disclosures, expressing his belief that the Fed should do more to keep its own counsel. He said market information that policymakers use in interest-rate decisions can be influenced by Fed forecasts and therefore becomes less reliable.

To that end, it was notable that September's post-meeting news conference was shorter and limited to one question from each reporter, a change from the past when follow-up questions were allowed. Warsh announced after October's session that one of the eight FOMC meetings next year will not consider interest-rate policy or include a post-meeting statement. That probably will increase with two "strategy" sessions among the eight meetings for 2028, Warsh said.

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Q3 2026 ECONOMIC REPORTS

GLOBAL ECONOMY: TRENDING IN Q3 2026

The global economy is irrevocably linked to the future of artificial intelligence – a connection that is producing greater-than-expected resilience among the wealthier nations that are riding the AI wave while blunting shocks of widening Middle East conflicts and lingering trade tensions. But developing countries on the sidelines of the AI boom have greater susceptibility to spiking energy costs and weaker demand.

The enormous scale and penetration of the technological boom also are creating new concerns about the consequences, if the AI revolution fades, for rich and poor countries alike.

Recent estimates by economist Stijn van Nieuwerburgh of the Columbia Business School are that U.S. spending on data centers and infrastructure will exceed $10 trillion through 2032 and annually average 3.6% of GDP.

AI was at the center of discussions at the International Monetary Fund and World Bank Group annual meeting in Bangkok, Thailand, in October.

Among attendees was U.S. Federal Reserve Chairman Kevin Warsh, who said he saw a horizon in which AI would be a positive supply shock, increasing the likelihood that goods and services will be produced more efficiently without boosting inflation.

"I'd say the advent of this new technology is probably the most consequential change to the U.S. and global economy in my lifetime," Warsh said.

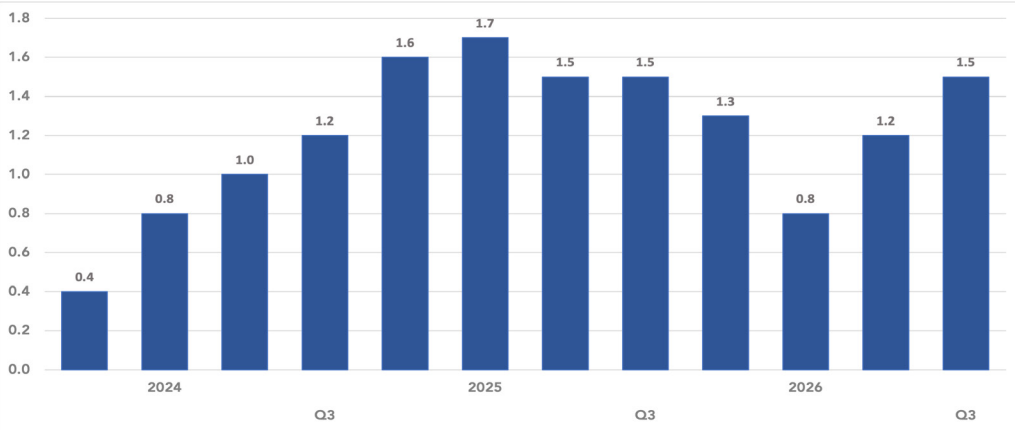
GDP GROWTH

EMPLOYMENT

MONETARY POLICY

GLOBAL ECONOMY

European Union GDP Annual Growth Rate



'I'd say the advent of this new technology is probably the most consequential change to the U.S. and global economy in my lifetime' – Kevin Warsh, Chair, U.S. Federal Reserve

The surge in valuations for AI-linked marquee companies has been driving enormous price growth of tech equities. Moreover, there is a general belief that this paper-wealth expansion will create consumer spending ahead of real wage growth.

This view has underpinned billions of dollars being invested in specialized computer chips, server hardware and data center construction despite nascent skepticism that the enormous debt and spending will be rewarded by eventual returns.

The IMF-World Bank gathering convened amid growth investor anxiety over rising borrowing costs and as AI labs' profitability hit semiconductor stocks and the bonds of AI infrastructure providers.

Two Australian data-center companies cited market volatility in suspending plans to offer shares to the public.

Even if a crash can be avoided or managed, the IMF warned that powerful AI-assisted cyberattacks on banks and other financial institutions threatens the stability of the global financial system. Recently, hackers used a Chinese AI program to attack South Korea's biggest banks and steal personal information of 68,000 customers.

In the IMF's latest forecast, the projected global outlook for 2026 was unchanged at 3.1% while increasing moderately to 3.4% in 2027.

Global headline inflation is projected to increase 4.7% in 2026 and easing to 4.1% next year. The increases are due chiefly to greater energy and food prices.

The IMF cautioned that a prolonged stalemate or further escalation of the Middle East conflict could keep energy and food prices elevated and volatile, revive inflationary pressures, worsen fiscal and external balances and weigh on growth. Further disruptions to energy infrastructure, cyberattacks, or extreme weather events could amplify these effects, the IMF said.



The information and details contained herein have been obtained from third-party sources believed to be reliable, however, Lee & Associates has not independently verified its accuracy. Lee & Associates makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to, the implied warranty of suitability and fitness for a particular purpose. Interested parties should perform their own due diligence regarding the accuracy of the information.

The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice. Third-party data sources: CoStar Group, Inc., The Economist, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Congressional Budget Office, European Central Bank, GlobeSt.com, CoStar Property and Lee Proprietary Data. ©

© Copyright 2026 Lee & Associates all rights reserved. Third-party Image sources: sorbis/shutterstock.com, shutterstock.com, pixabay.com, istock.com