

Data center boom continues to drive durable orders

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Next week is light on US economic data, which will be a welcome relief as markets continue to digest the Fed's first rate hike in three years. With inflation pressures building, though, we'll be watching the regional Fed surveys from Philadelphia, Richmond, and Kansas City alongside the S&P PMIs. These surveys can offer early clues on inflation's trajectory and the degree of energy price passthrough to the broader economy. We expect two more rate hikes from the Fed by year-end, driven by persistent inflation concerns.

With rates moving higher, the housing market will remain under pressure. New home sales data on Thursday should confirm that picture — we expect the level to stay depressed at 588k as rising mortgage rates weigh on affordability. The pipeline for new construction signals a continued slowdown as well: building permits for August declined and sit near cycle lows as weak demand, input price pressures, and high borrowing costs weigh on homebuilder activity. Our growth outlook does not look for a housing rebound. Residential investment subtracted from headline GDP growth in seven of the last ten quarters and is unlikely to contribute positively over the next several quarters.

The durable goods report is worth watching to gauge the momentum in AI-related investment. In contrast to housing, nonresidential investment has consistently added to GDP growth since 2020, driven largely by structures — particularly data center construction — and equipment spending tied to the AI buildout. Nonresidential investment has been contributing nearly one percentage point to GDP growth since early 2025, suggesting that without the AI investment boost, growth would have run below 1% in the first half of 2026. The near entirety of US GDP growth is now being driven by the consumer and AI-linked capital spending, and a slowdown in either would be concerning.

On that note, a growing wave of state and local measures to curb data center development — notably in New York, Texas, Pennsylvania, Oregon, Massachusetts, and New Jersey — threatens to slow AI capex momentum. We are closely watching durable goods orders for early signs of a pullback, but we do not expect this to appear in the data yet. Our forecast calls for headline durable goods orders to rise 0.2% month-over-month despite a retracement in Boeing orders. Stripping out transportation, we expect core orders to rise 0.7% month-over-month, driven primarily by computer and electrical equipment as the AI boom continues.

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