EFFICIENT GROUP

ECONOMIC COMMENTARY

Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE
25 August 2026

For every one to attain financial well-being

THE US ECONOMY IS THRIVING, BUT ITS CONSUMERS ARE NOT

The most revealing recent signal about the United States (US) economy did not come from the Federal Reserve (Fed). It came from Walmart.

The US' largest retailer increased revenue, beat profit expectations, and raised its annual forecast. Its shares, however, plunged 9.2%. The problem was hiding beneath the headline: Same-store sales grew by just 2.6%, the weakest performance since 2019, while sales inside physical stores declined. Walmart is now using most of a $2.9 billion tariff refund to cut prices because its customers need relief.

This hardly sounds like an overheating economy. National retail sales fell by 0.6% in July, grocery spending declined after inflation, and US food prices are roughly 25% higher than in 2020. Consumers are watching every dollar. Yet, the US economy may not be cooling at all. It may simply be booming somewhere that ordinary Americans cannot feel.

Consider employment. Hiring has slowed sharply, and total employment declined in July. But the US' labour force is 1.3 million people less than a year ago, while the number employed is still more than 300 000 higher. Unemployment claims remain low, and there is roughly one unemployed person for every available job. An ageing population and large-scale deportations are further shrinking labour supply. The US may not have too few jobs; it may have too few workers.

Something similar is happening with spending. Household consumption generated roughly three-quarters of the country's post-pandemic growth. Now, government and artificial intelligence (AI) are taking over. In recent quarters, AI-related investment has contributed about as much to economic growth as personal consumption. This sounds impressive, but it creates a contest for scarce capital. Household debt has fallen from nearly 63% of gross domestic product (GDP) in 2022 to below 58%. Federal borrowing moved the other way, while technology companies began raising enormous sums for chips, data centres, and power generation. Large tech firms have recently issued about $75 billion in bonds. Nvidia alone has pledged up to $100 billion towards a giant AI project in Ohio. Government and AI are, therefore, outbidding households for money. The price of that money, the interest rate, remains high. Home loans, vehicles, and credit become less affordable, leaving consumers to cut back even while the economy expands. The war in Iran and restricted oil flows add another squeeze through higher fuel and freight costs.

Bond investors have noticed. The 30-Year US Treasury Yield recently exceeded 5.3%, its highest level since 2007. Federal debt has crossed $40 trillion, and the deficit is around 6% of GDP. Crucially, yields are rising mainly because real returns demanded by lenders are increasing, not simply because inflation expectations have exploded. A few softer economic releases may encourage the Fed to cut interest rates, but they cannot manufacture workers, energy, or savings.

The stock market is telling a far happier, and narrower, story. The S&P 500 has gained roughly 12% this year, yet Nvidia alone constitutes about 8% of the index. If its share price moves 3% while the other 499 companies remain unchanged, the entire index shifts by about 0.25%. Investors may think they own 500 companies. Increasingly, they own one dominant story: AI.

For South Africans, this is not distant theatre. High US real yields support the dollar, pressure the rand, increase global funding costs, and constrain the South African Reserve Bank's room to cut interest rates. They also make two popular assumptions dangerous: That weak American consumers guarantee lower interest rates, and that buying the S&P 500 automatically provides broad diversification.

Perhaps the AI build-out will unlock extraordinary productivity, making today's sacrifice worthwhile. But, if expected returns fail to arrive, the US will have squeezed its consumers and raised the world's cost of capital to finance an exceptionally concentrated bet. The greatest risk may not be the recession everyone keeps anticipating. It may be a boom too narrow to feel, and too expensive to sustain.

Efficient Group
Your holistic financial services partner for **more than** 20 Years