# Signs of Economic Slippage
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The Atlanta Fed's GDP Now forecasting model shows that the latest estimate of GDP growth for the third calendar quarter is 3.9% as of December 1.  While the US economy appears strong now, some economic commentators believe that the US economy has some signs of weakness that are likely to inhibit economic growth.

Some of the commentators that I follow who are very credible, in my opinion, are:

- Ed Dowd, Founding Partner of Phinance Technologies, and former portfolio manager at Blackrock
- Danielle DiMartino Booth, CEO of QI Research
- David Rosenberg, Founder and Economist at Rosenberg Research
- Jeff Gundlach, Founder and CEO of Doubleline Capital

Among these four analysts, there are some common threads in their economic outlooks.  The common concerns are related to employment, credit delinquencies, a potential AI bubble, and high valuations in housing and the stock market.  High asset prices enable a higher level of consumer spending, but when asset prices decline, consumers look for ways to cut back on their spending.

The largest component of US GDP is household consumption, which represents 68.2% of the economy for the second quarter of 2025.  The other two major components are investment at 17.6% and government spending at 17.2%.  Net exports/imports account for the remainder.  Since the US has a persistent trade deficit, this represents a -2.9% component of GDP.
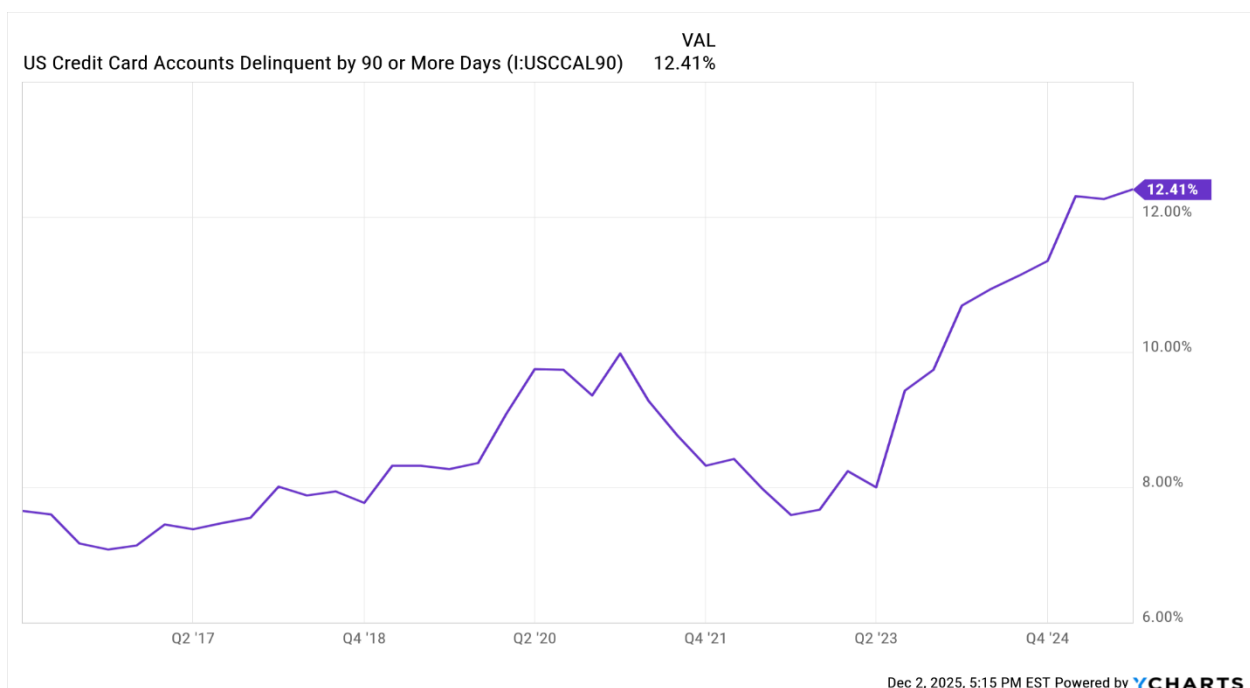
The unemployment rate has risen from 4.1% in June to 4.4% in September.  There is a time lag before many economic reports are released by US Government agencies.  However, announced layoffs are at their highest level since 2020 when we had pandemic-related business shutdowns.  Among the major companies that have announced layoffs in recent months:

- Amazon announced 14,000 job cuts in November.
- UPS announced 48,000 job cuts in October (34,000 operational jobs and 14,000 management jobs).
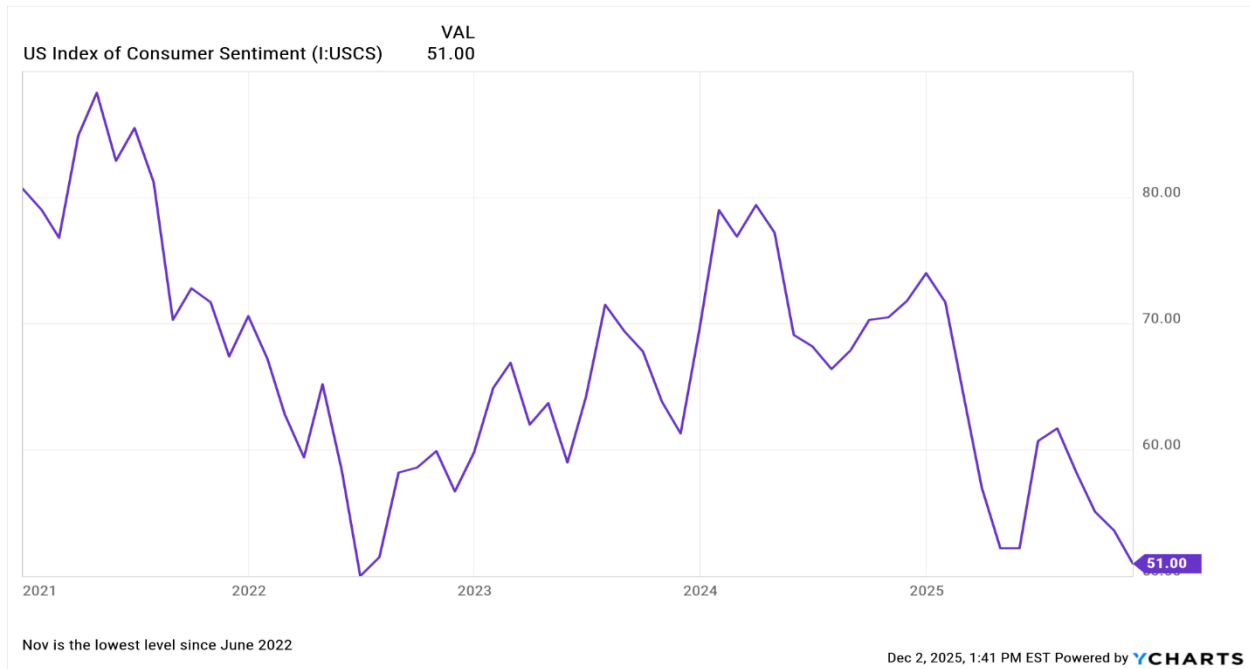
- Verizon cut 13,000 to 15,000 jobs in November (about 20% of their employees), in part because 179 retail stores are being converted to franchises.
- Paramount cut 2,600 jobs in October and November.
- Target cut 1,800 corporate positions.
- Nestle announced the elimination of 16,000 jobs on a global basis in October.
- Intel announced in July that it will cut 21,000 jobs by year-end. This represents about one quarter of its global workforce.
- Microsoft has eliminated 15,000 jobs year-to-date (9,000 in July, 6,000 in November)
- Conoco Phillips announced a 25% reduction in its workforce in November, representing between 2,600 and 3,250 workers.

The layoffs are attributed to several factors including: 1) adoption of artificial intelligence, 2) adjustments for over-hiring after the pandemic, and 3) slowing consumer demand.

According to the Federal Reserve Bank of New York, credit card delinquency rates have risen. There is more economic stress at the lower end of the economic scale. While the US residential mortgage delinquency rate has held steady at 1.73%, the delinquency rate (90 days or more) on credit card accounts is 12.4% as of September 30. The student loan delinquency rate (90 days or more) was at 9.36% as of September 30, slightly below pre-pandemic levels.



US Credit Card Accounts Delinquent by 90 or More Days (I:USCCAL90)   VAL 12.41%

Dec 2, 2025, 5:15 PM EST Powered by YCHARTS

Given the employment outlook and credit concerns, consumer sentiment has drifted lower.  According to the University of Michigan, the US index of consumer sentiment was at 51.0 in November, down from 71.8 a year ago.

US Index of Consumer Sentiment (I:USCS)   VAL   51.00



Nov is the lowest level since June 2022

Dec 2, 2025, 1:41 PM EST Powered by YCHARTS

A major stimulus for the economy has been capital expenditures related to artificial intelligence.  According to Spherical Insights, a global market research and consulting firm, US (government and private sector) investment in artificial intelligence for 2025 is estimated to be $471 billion.  Of this amount $320 billion will be invested by four companies: Amazon, Microsoft, Alphabet, and Meta.

Sam Altman, the CEO of OpenAI which launched ChatGPT, is optimistic about artificial intelligence.  OpenAI, a private company, has current commitments to spend $1.4 trillion (yes, that's trillion, not billion).  According to TechStartUps.com, for the first half of 2025, OpenAI reported revenue of $4.3 billion, 16% higher than total revenue for calendar year 2024.  Industry analysts expect total revenue of $13 billion for 2025.  Thus, his company has plans for capital expenditures that will be 107X 2025 revenue.  This will be difficult, if not impossible, to finance.  At the end of June, OpenAI had cash and securities with a value of $17.5 billion, but the company projects that it will require $115 billion of cash before it reaches breakeven on a cash flow basis in 2029.

Oracle Corp. has issued $20.6 billion of net new long-term debt during the three quarters reported for 2025. Most of the new debt will be used to fund capital expenditures related to artificial intelligence initiatives. Its debt/equity ratio increased to 4.5 and free cash flow has turned negative. Meanwhile, credit default swaps on their debt have increased in price from 0.35% in the first calendar quarter to 1.20% in the fourth quarter. So, the additional credit risk has not gone unnoticed. The price of its stock has also declined from a high of $328 on September 22 to $201 on December 2.

There has been much exuberance for artificial intelligence. There is no doubt that it can improve productivity in some areas. However, investors are now starting to question whether the future revenue from AI applications will justify the large capital expenditures that are required now.

If you have any questions or comments, please contact me.


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