January 13, 2026

Dutta's Monetary Thoughts

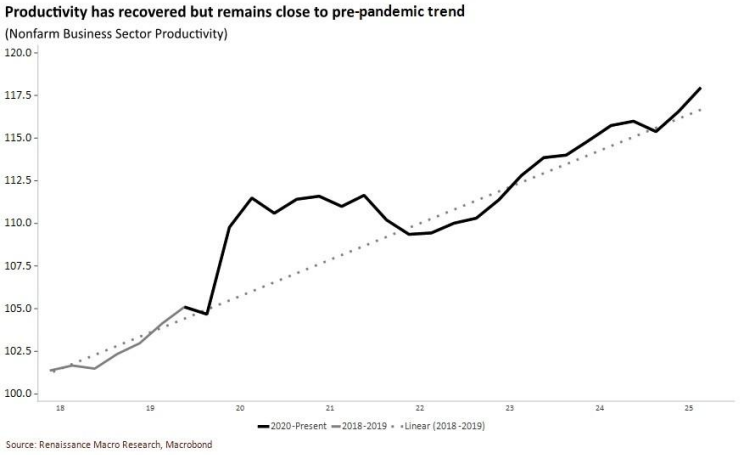
Are we in a productivity boom? Some thoughts and doubts

Neil Dutta

Strong productivity of late

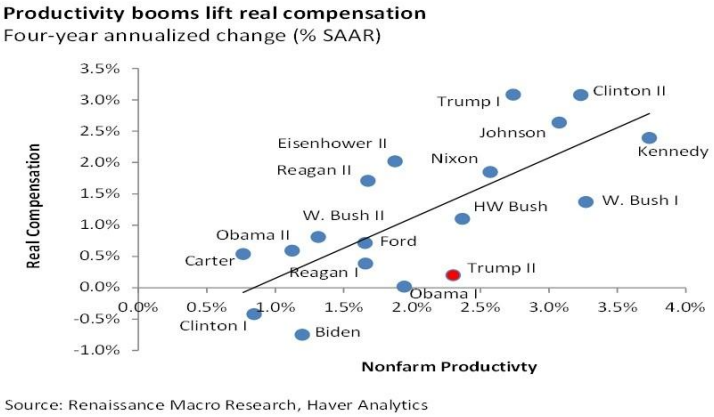
Labor productivity growth has been quite robust in recent quarters, sparking many to conclude that we are in the middle of a strong boom. The productivity data are a residual; the gap between output and hours worked. I think people are conflating a short-run data disconnect with a longer-run productivity story. A few points worth highlighting.

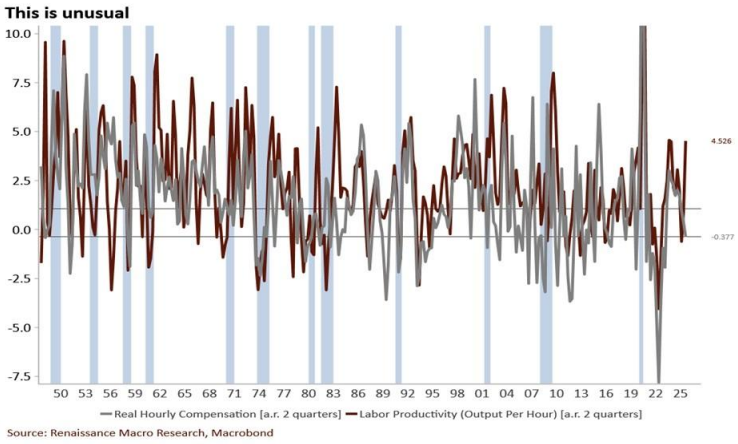
First, productivity has ebbed and flowed since the pandemic. There was a strong boom early, as is typical in early expansionary phases, followed by a decline. Productivity has been recovering since 2023. However, as our figure shows, taking stock of the post-pandemic trend suggests nonfarm productivity is only modestly above the trend it was on in the years immediately preceding the pandemic.



Real compensation is weak

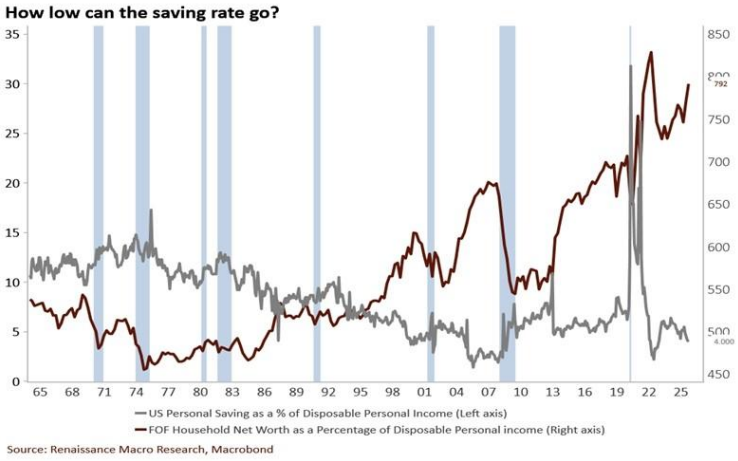
Second, in a genuine productivity boom, we ought to see real compensation growth expand. The point is to raise living standards and that means stronger real wage growth and ultimately, household spending. As our nearby figure shows, there is a strong relationship between productivity and compensation over time. I used presidential terms to splice the data. The link is by no means perfect, but obviously it is strong.





Third, we are not seeing strong growth in real compensation today. Indeed, so far this year, nonfarm productivity has expanded 2.3% SAAR while real compensation per hour is up just 0.2%. As our figure shows, while it is still early going, the degree of this undershoot is significant when looking at the historical data.

Fourth, there is no evidence that compensation growth is about to catch up to productivity. Average hourly earnings for production and non-supervisory workers has climbed just 3.1 percent SAAR over the last three months. This series tends to be more representative and has a strong contemporaneous relationship with the Employment Cost Index. Moreover, wage growth in posted jobs and quits don't suggest compensation pressures on the horizon.

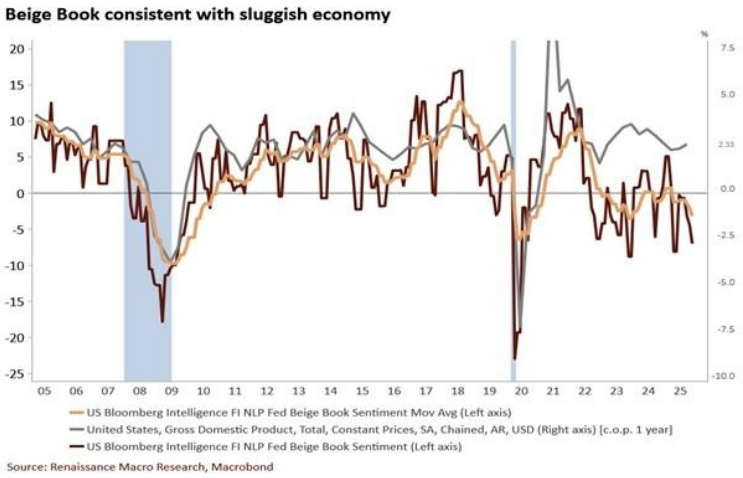


Savings cannot drop forever

Fifth, whether this dynamic of booming productivity continues despite weak compensation growth depends on whether household savings continues to be drawn down. Companies cannot indefinitely expand margins by squeezing labor. Put differently, do we get to a point where the savings rate keeps declining or is it more likely that asset prices adjust downward? If asset values (stocks and homes) falter, it is likely savings will rise.

Productivity comes after adoption

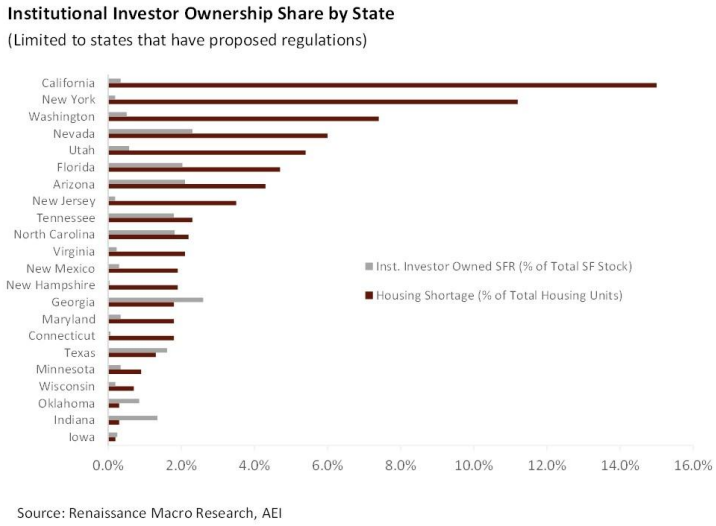
Sixth, it is unusual to see productivity rising alongside the adoption of the breakthrough technology. Usually, productivity comes later. It takes time for people to make use and extract the full potential out of new technologies. For example, in the latest CFO Survey, over half of firms surveyed said they made investments in AI technology but generally indicated that there was no change to labor productivity.



Finally, it is an open question of just how strong the economy is growing. Growth in the last two quarters has been just above 4% while growth over the last year has been closer to 2 percent. An economic boom is certainly not confirmed by the labor market, surveys of businesses and households or the Beige Book. Judging the economy by that lens points to less rapid growth.

Plenty of crosscurrents

None of this is to say that a productivity boom can't happen at some point in the future, but it's unlikely right now. There are plenty of crosscurrents: tax cuts and deregulation help but budget deficits, uncertainty around trade policy and having the government play more of a role allocating resources across the economy probably don't. At any rate, I think the simplest story is probably the right one: the economy is probably not growing as rapidly as assumed with aggregate hours worked are not expanding.



Institutional investors are not driving the housing crisis

- A recent paper from the American Enterprise Institute finds that targeting institutional investors in residential housing markets may be a political distraction from the true causes of America's affordability crisis. Despite legislative efforts in over 20 states to restrict largescale property ownership, institutional investors— those owning more than 100 properties—account for less than 1% of the nation's single-family housing stock. Even in Georgia, the state with the highest concentration, these investors hold just 2.6% of homes. The research also notes that institutional buyers entered the market only in the early 2010s, well after home prices had already become unaffordable in many regions, particularly in California and New York where price-to-income ratios exceeded affordable thresholds as far back as the 1990s.

- The study argues that the real driver of today's housing crisis is decades of insufficient construction caused by restrictive land-use regulations, onerous permitting processes, and discretionary zoning approvals. In California, which faces a housing shortage equal to roughly 15% of its existing stock, institutional investors own a mere 0.2% of homes. Policymakers would achieve far greater impact by enabling more housing supply through by-right zoning, smaller lot allowances, and streamlined development approvals rather than focusing on marginal market participants. The AEI Housing Center has released over 6,000 localized playbooks identifying specific regulatory reforms that could unlock significant new housing construction nationwide.

Given these findings, the Trump administration's recent proposals to restrict institutional investors in the housing market are unlikely to meaningfully improve affordability as institutional ownership represents a small fraction of total housing stock nationwide.

Private credit emerges as key funding source for AI expansion

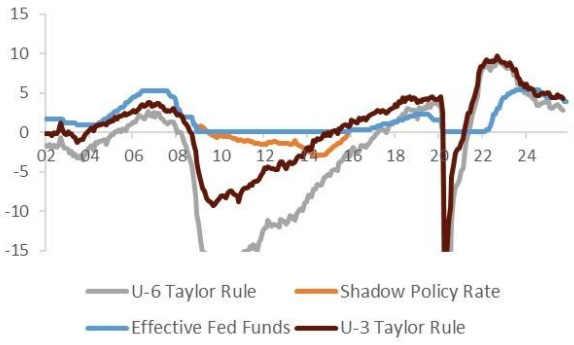
- A recent paper by the Bank for International Settlements examines the financing dynamics behind the ongoing artificial intelligence investment boom. The study finds that AI-related spending in the United States, including data centers and semiconductor manufacturing facilities, now accounts for roughly one percent of GDP and has contributed nearly half a percentage point to economic growth annually since 2022. Major technology firms that have traditionally funded operations through internal cash flows are now increasingly turning to external financing as the scale of required investment outpaces their operating profits.

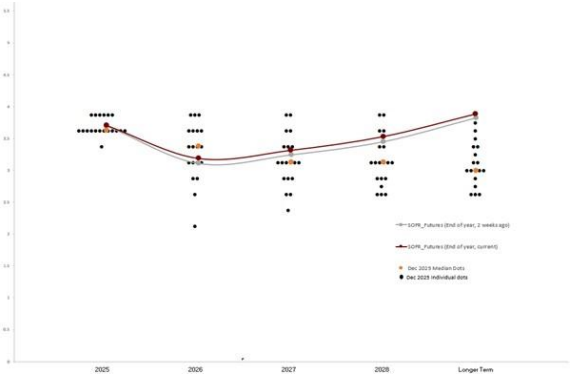
- The shift toward debt financing is particularly notable in private credit markets, where lending to AI-related sectors has grown from near zero to over $200 billion in outstanding loans. Private credit now accounts for almost eight percent of total volumes in this space, with loan terms and spreads remaining comparable to non-AI borrowers despite the inherently speculative

nature of the underlying investments. This creates an interesting tension between equity markets, which have priced in exceptionally high future returns for AI companies, and debt markets, which appear to treat these borrowers as average risk.

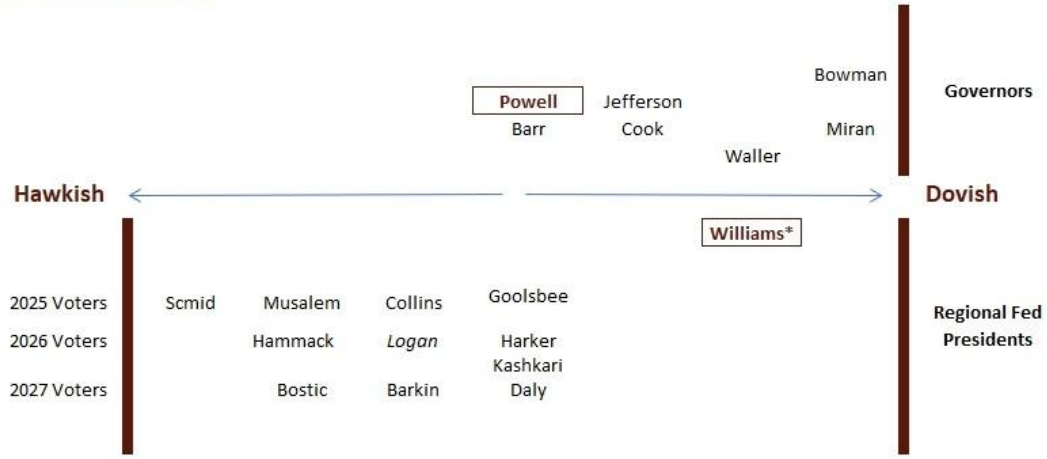
- While the overall scale of the AI investment boom remains modest compared to historical episodes like the dot-com era or commodity booms in other countries, the paper notes that previous investment surges typically ended with GDP growth slowdowns exceeding one percentage point. The sustainability of current spending depends heavily on whether AI firms can deliver on the elevated earnings expectations embedded in their valuations.

Monetary metrics





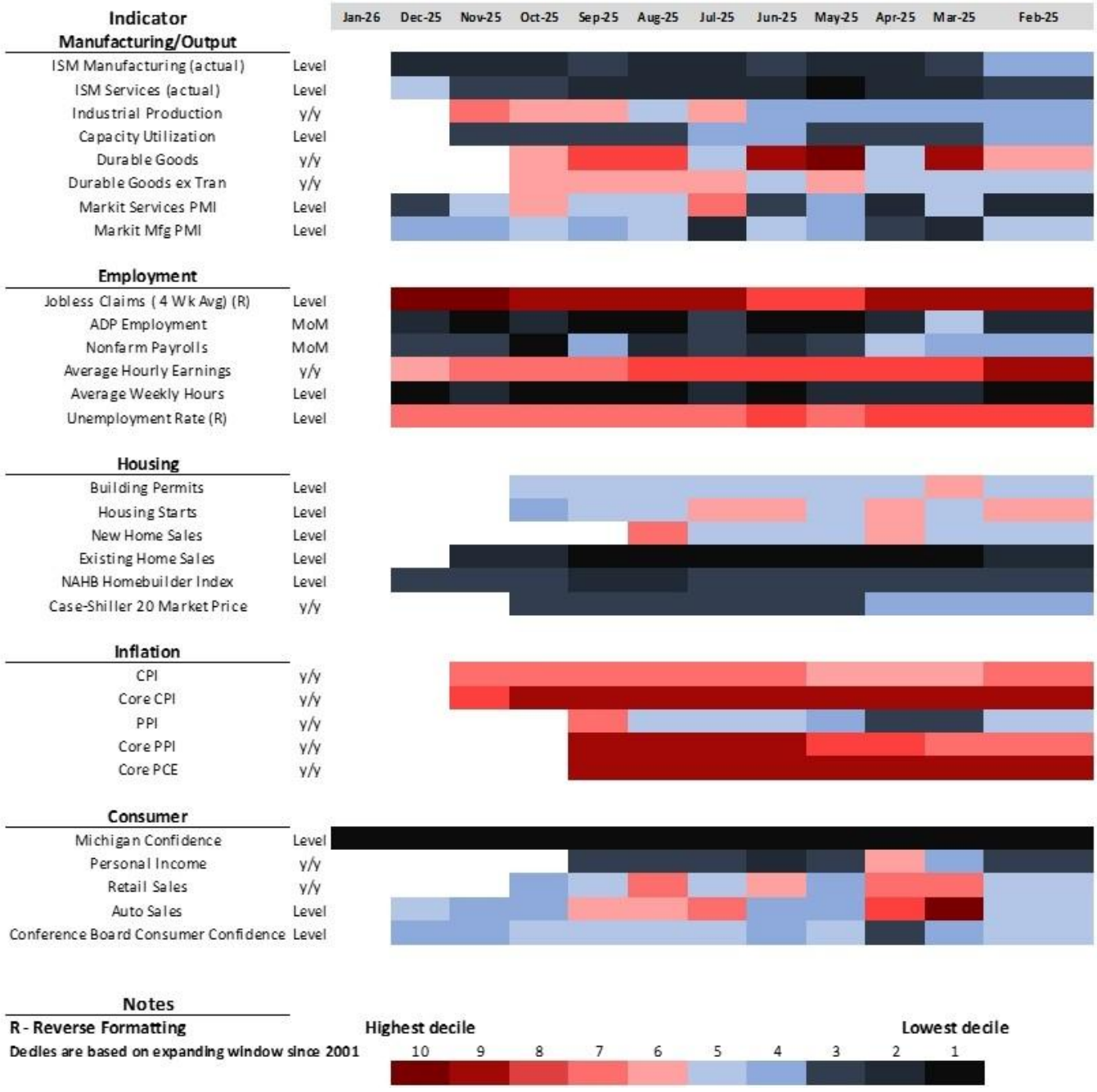
Hawks and Doves



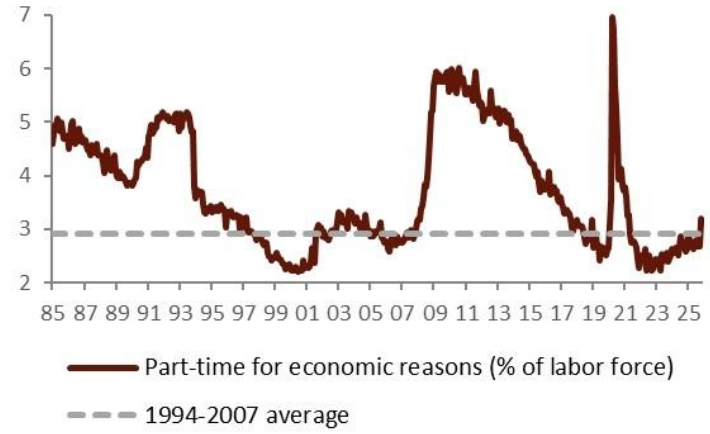
*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

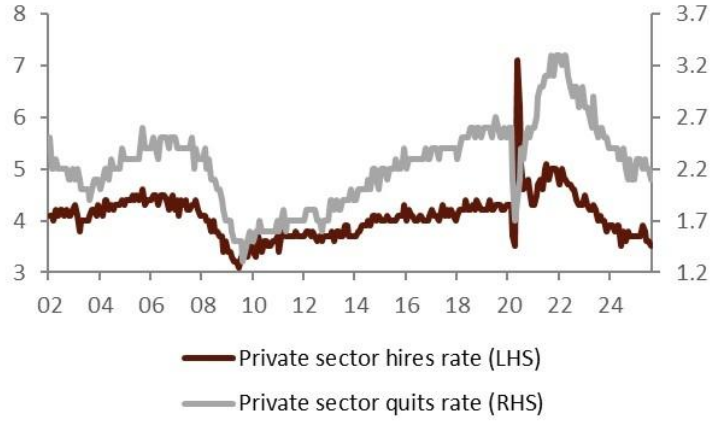
FOMC Forecasts	Median					Central Tendency				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6–1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0
September projection	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5–4.6	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3
September projection	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8–2.9	2.3–2.5	2.0–2.2	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0
Core PCE inflation	3.0	2.5	2.1	2.0		2.9–3.0	2.4–2.6	2.0–2.2	2.0	
September projection	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0	
Projected policy path										
Fed funds rate	3.6	3.4	3.1	3.1	3.0	3.6–3.9	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5
September projection	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5

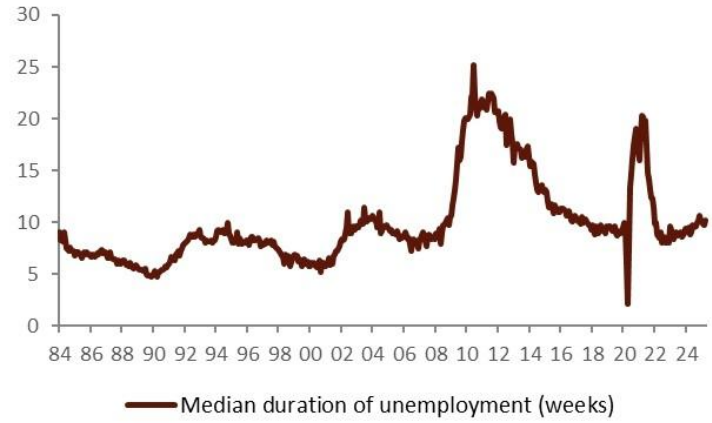
High frequency data heat-map

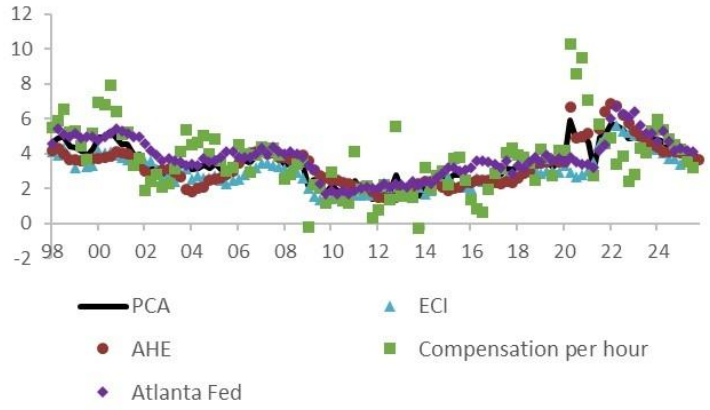


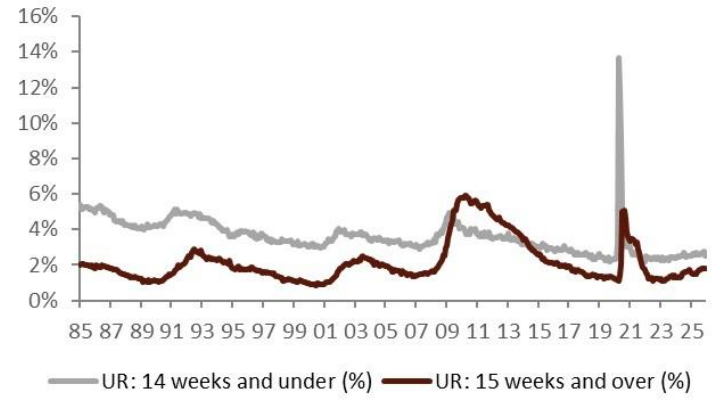
Labor market indicators

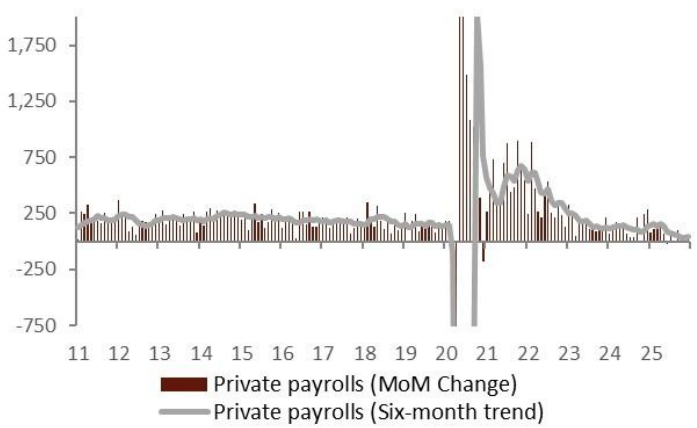




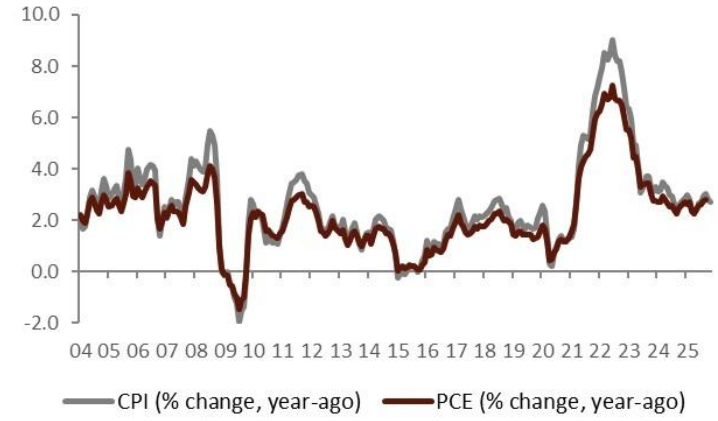


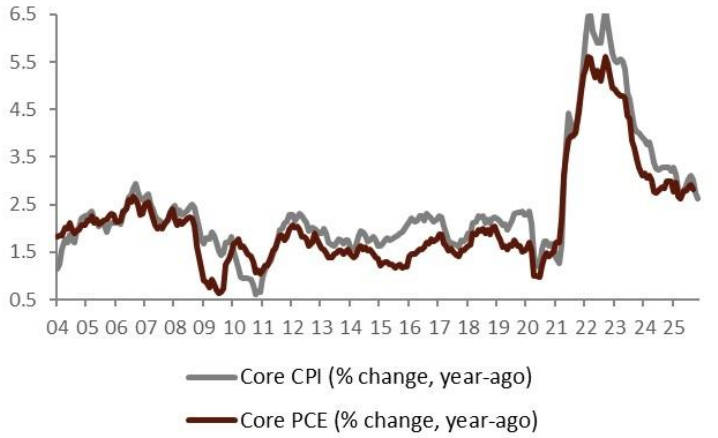


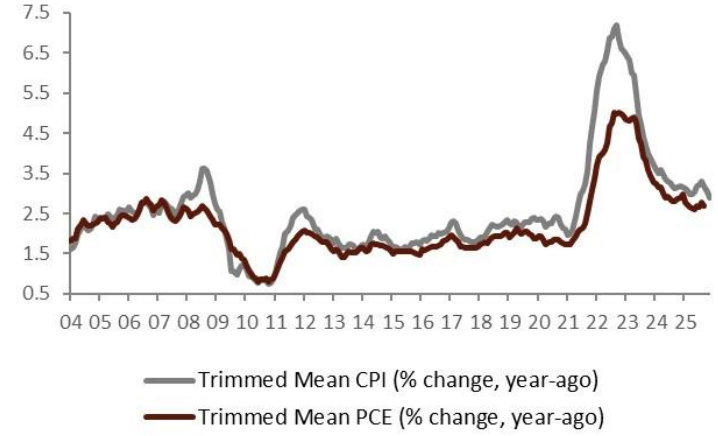


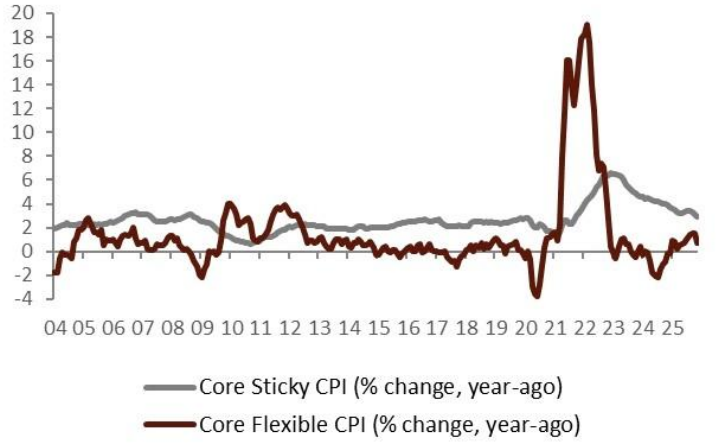


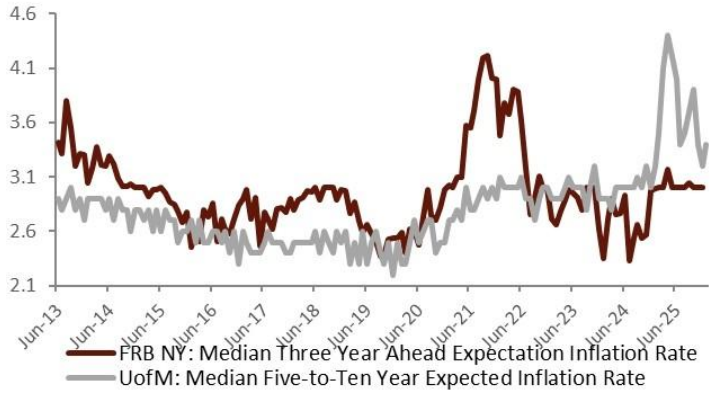
Inflation indicators

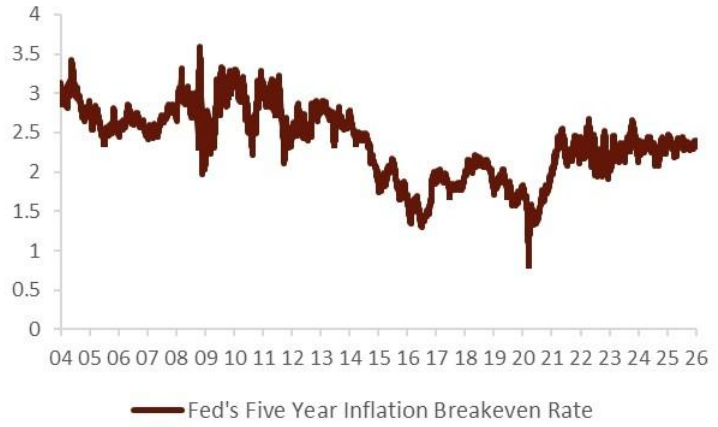




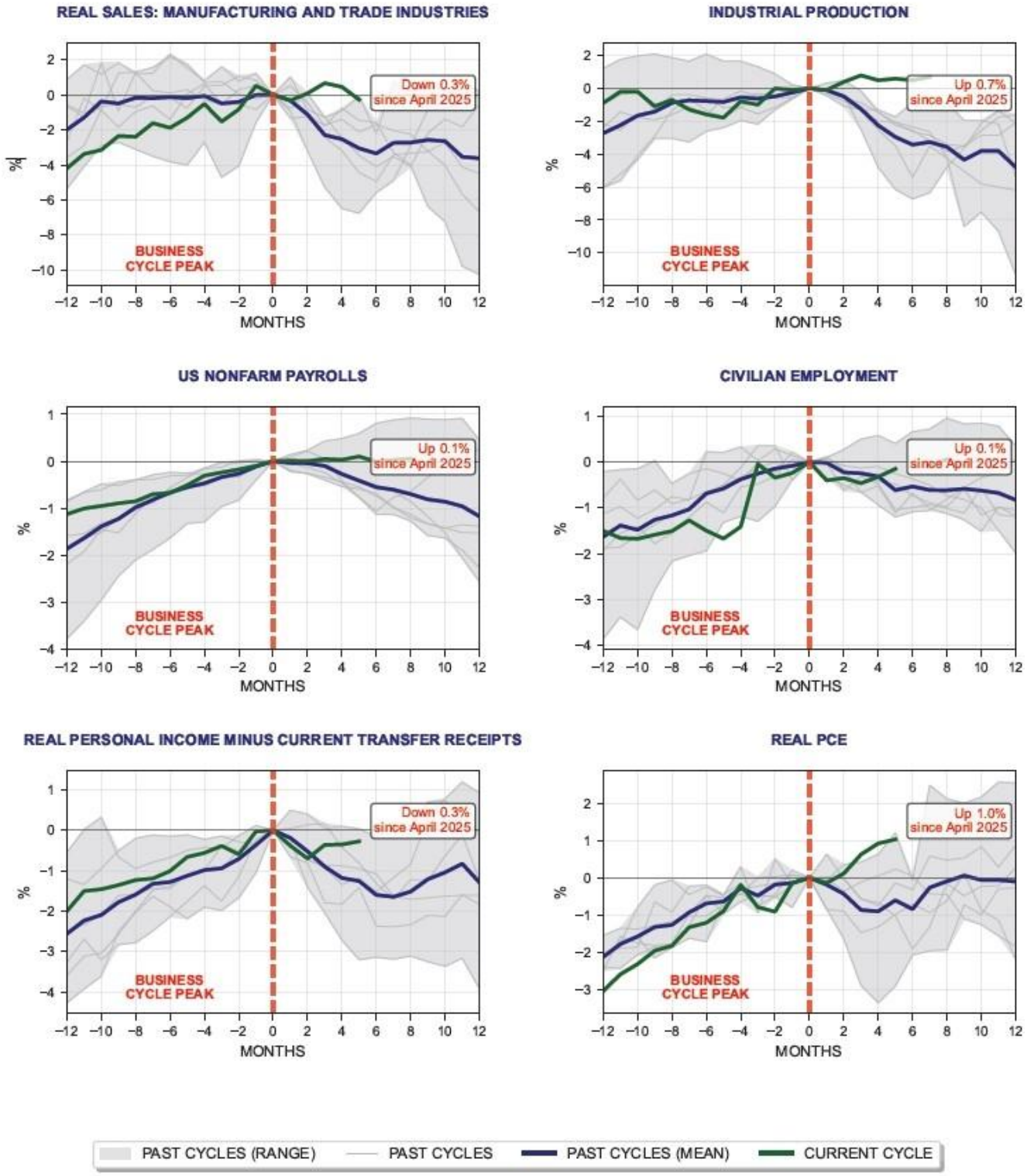




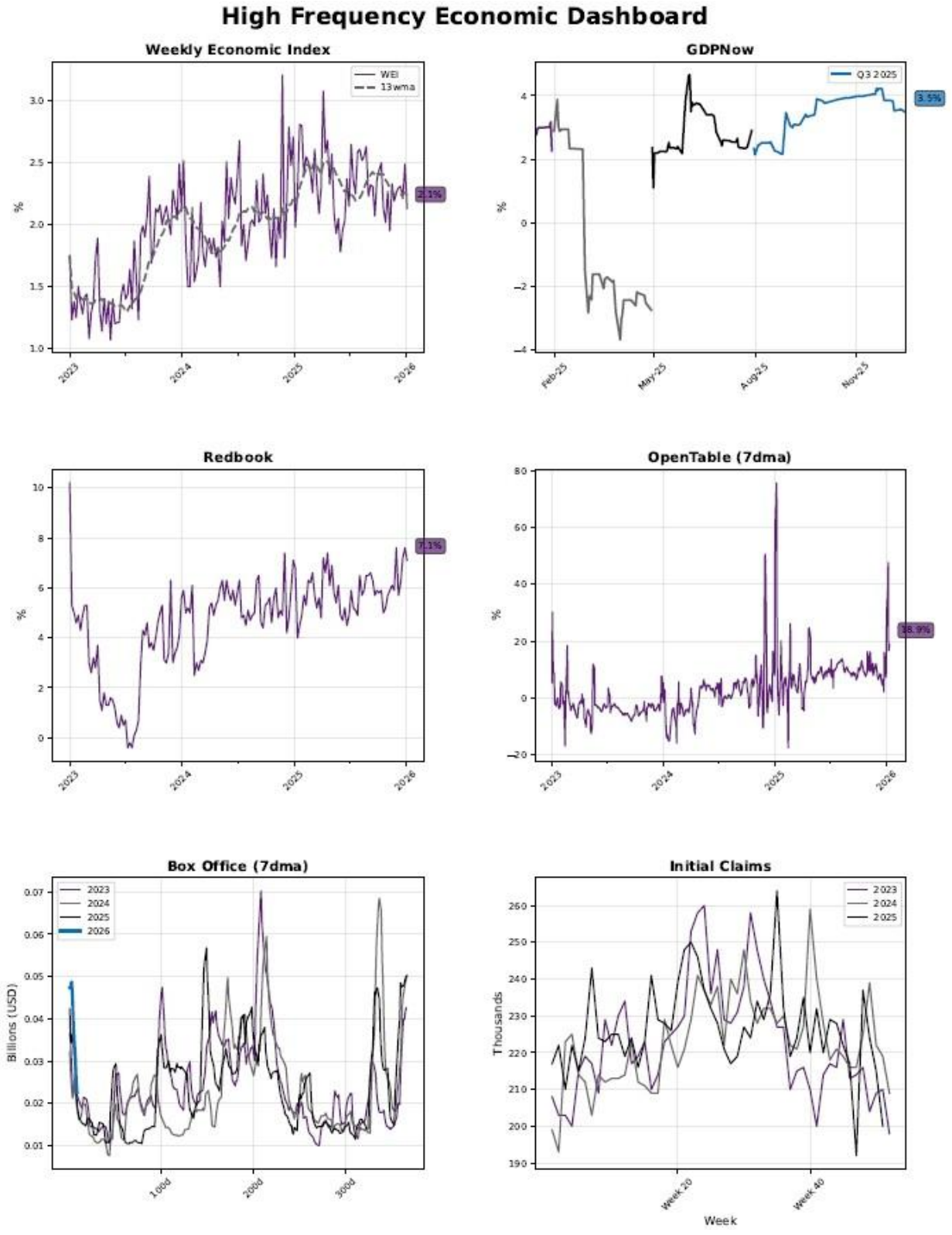




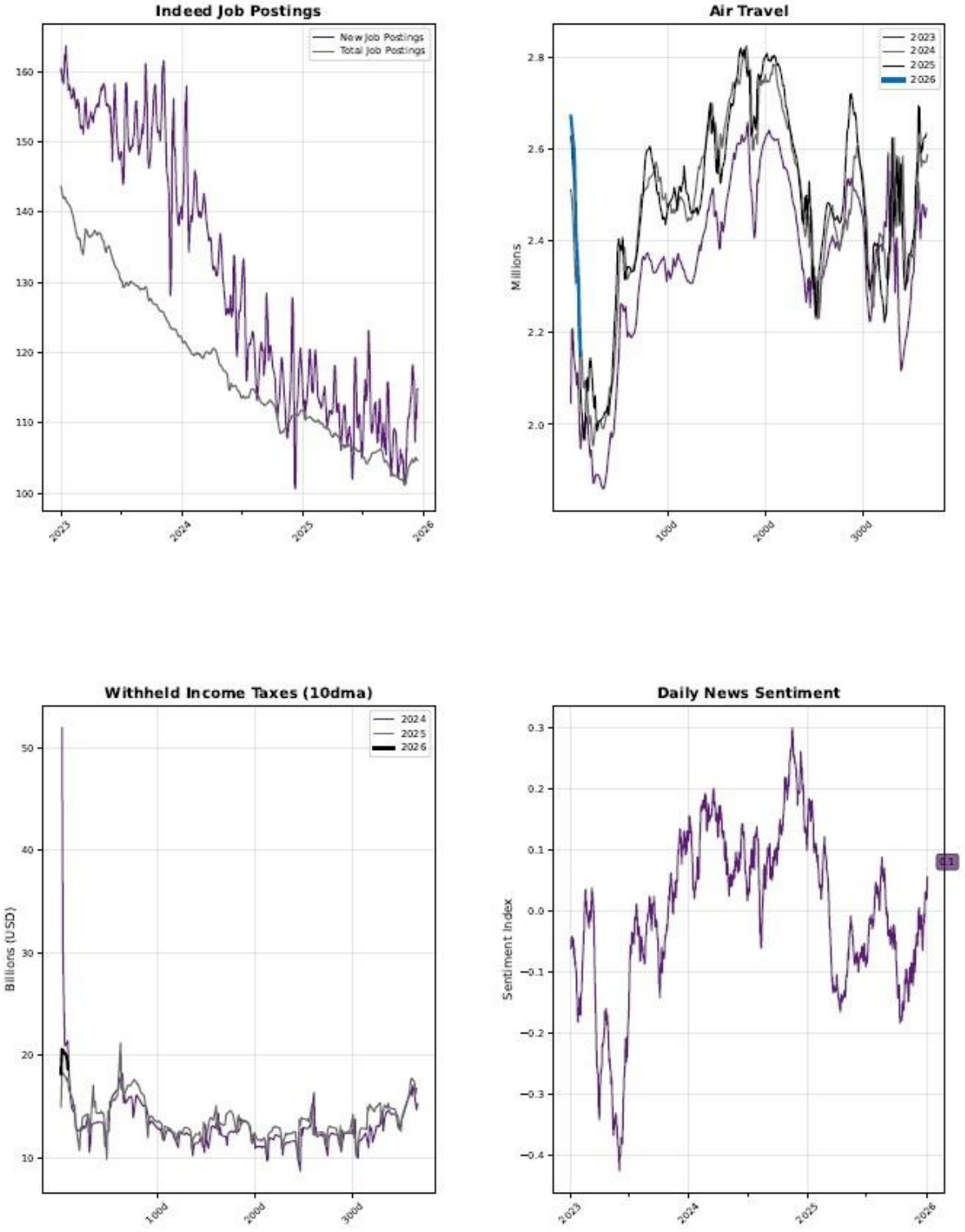
NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period


High Frequency Economic Dashboard
Weekly Economic Index
WEI
13wma
2.1%
%
GDPNow
Q3 2025
3.5%
%
Redbook
7.1%
%
OpenTable (7dma)
18.9%
%
Box Office (7dma)
2023
2024
2025
2026
Billions (USD)
Initial Claims
2023
2024
2025
Thousands
Week

High Frequency Economic Dashboard



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