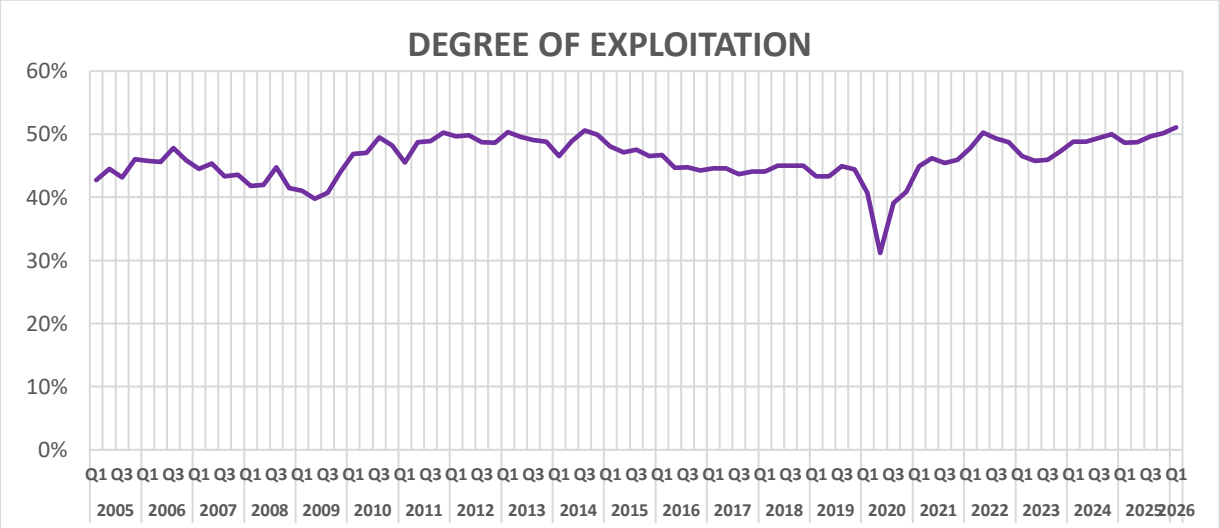
THE US ECONOMY IN Q1 2026: STRONGER THAN EXPECTED.

I had detected a weakening in US profitability at the end of 2025 and expected it to continue into the first quarter of 2026. Instead, profitability strengthened slightly. This was entirely due to the effects of the AI investment boom percolating through the economy which was sufficient to overcome the negative effects of the Gulf war which continued throughout March.

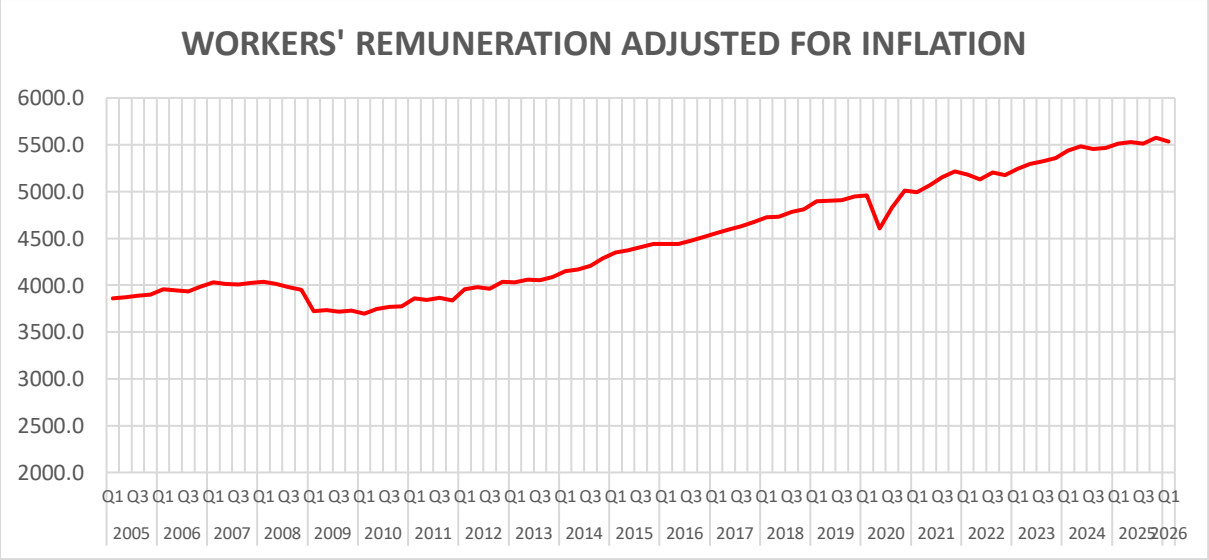
I will begin with analysing the source of profits for the capitalists, the exploitation of their workers. As we can see there has been a modest rise in exploitation over the last three quarters. This graph is based on the data provided by NIPA Table 1.14 as attached. It is arrived at by dividing the net surplus over worker remuneration. (All data, calculations and equations can be found in the spreadsheet titled *Table 1.14 quarterly Q1 2026 final*)

Graph 1.



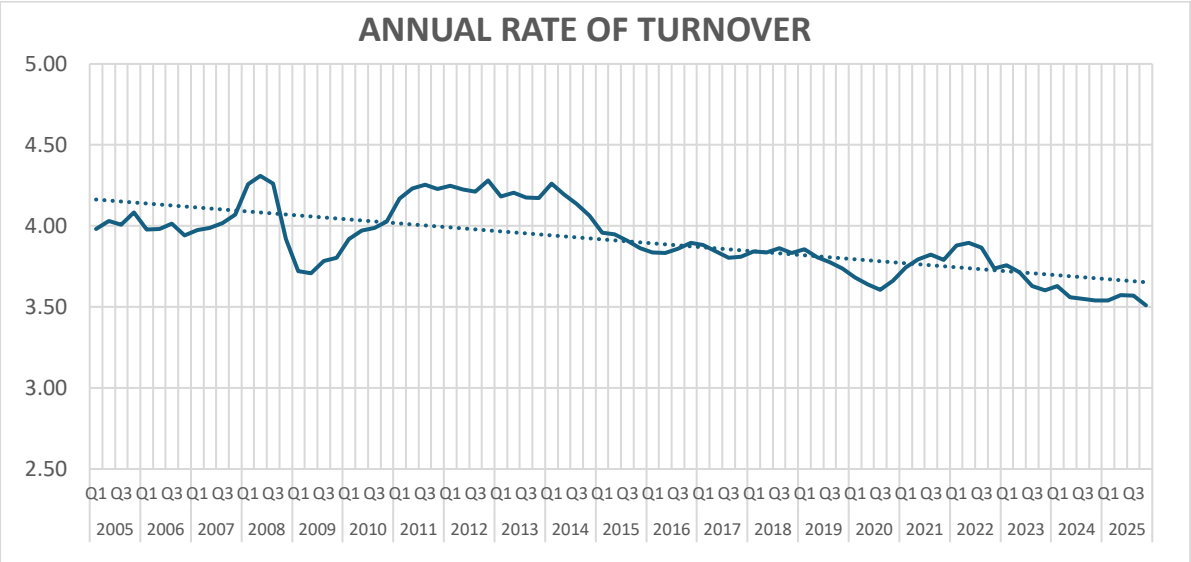
This rise in the degree of exploitation was entirely due to the stagnation in worker remuneration in the non-financial corporate sector after adjusting for inflation. For 24 months remuneration has been more or less stagnant.

Graph 2.



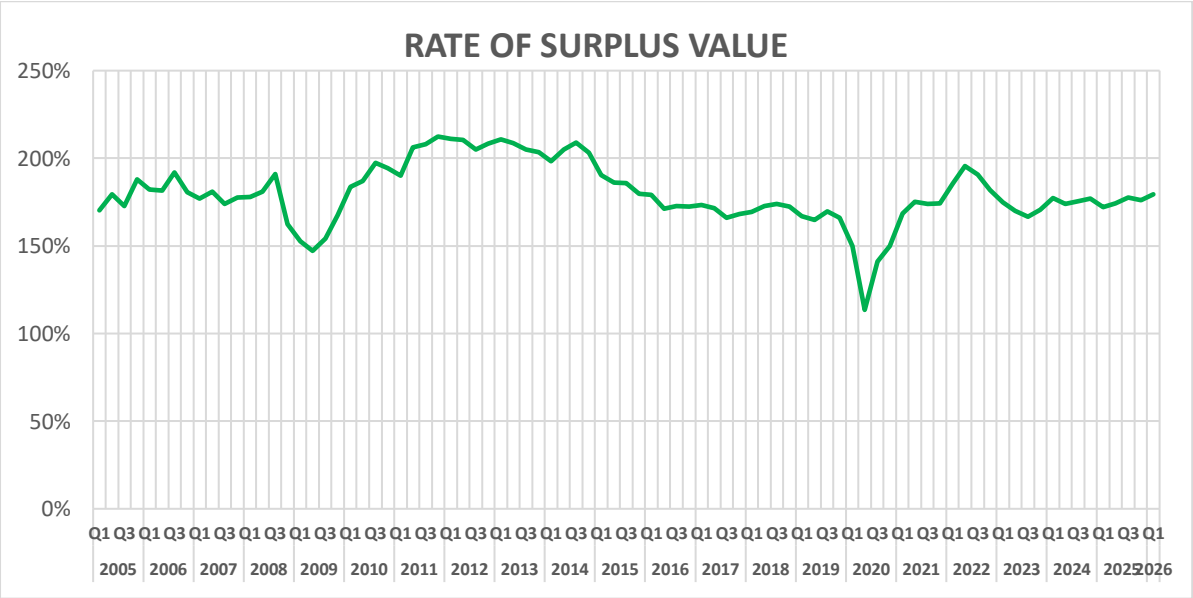
Looking at turnover. Unfortunately, industry GDP which is needed to calculate turnover will not be available until the end of June. Accordingly, I have extended the Q4 turnover of 3.51 into Q1 of 2026. If there is a material difference, I will correct this later when I do the second part of the analysis of the US economy in June. As we can see, in common with Chinese turnovers, US turnovers remain very weak. Surely not a sign of a resilient economy, and certainly ominous for a debt ridden one.

Graph 3.



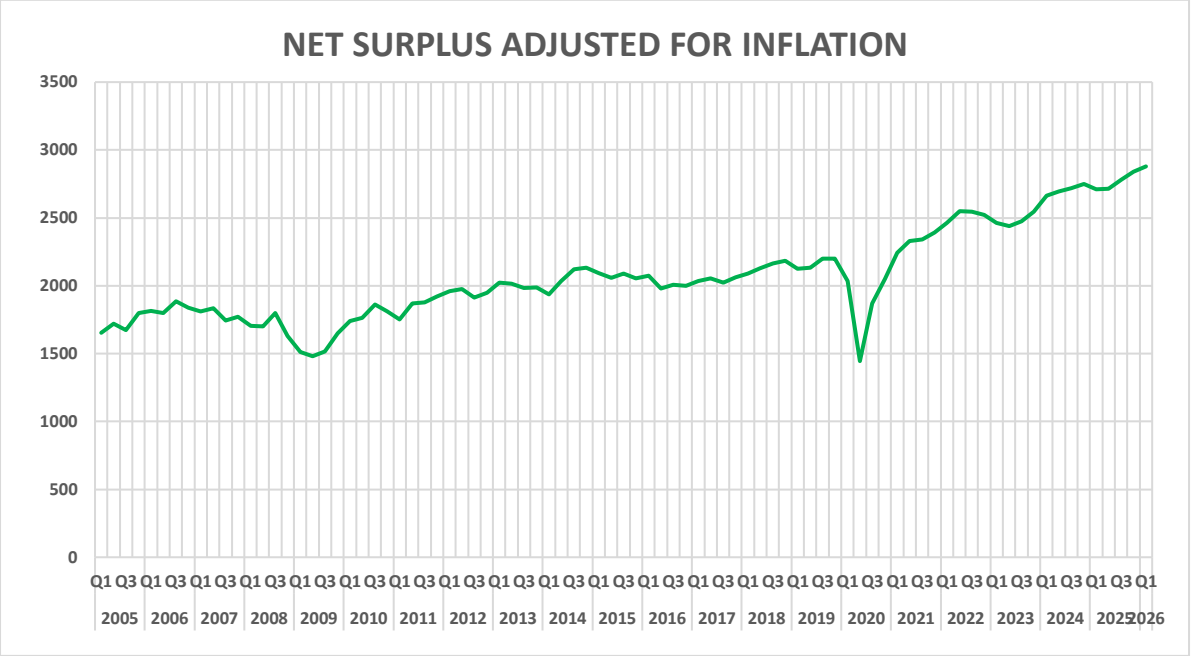
Together turnover and the degree of exploitation form the all-important rate of surplus value feeding directly into profitability.

Graph 4.



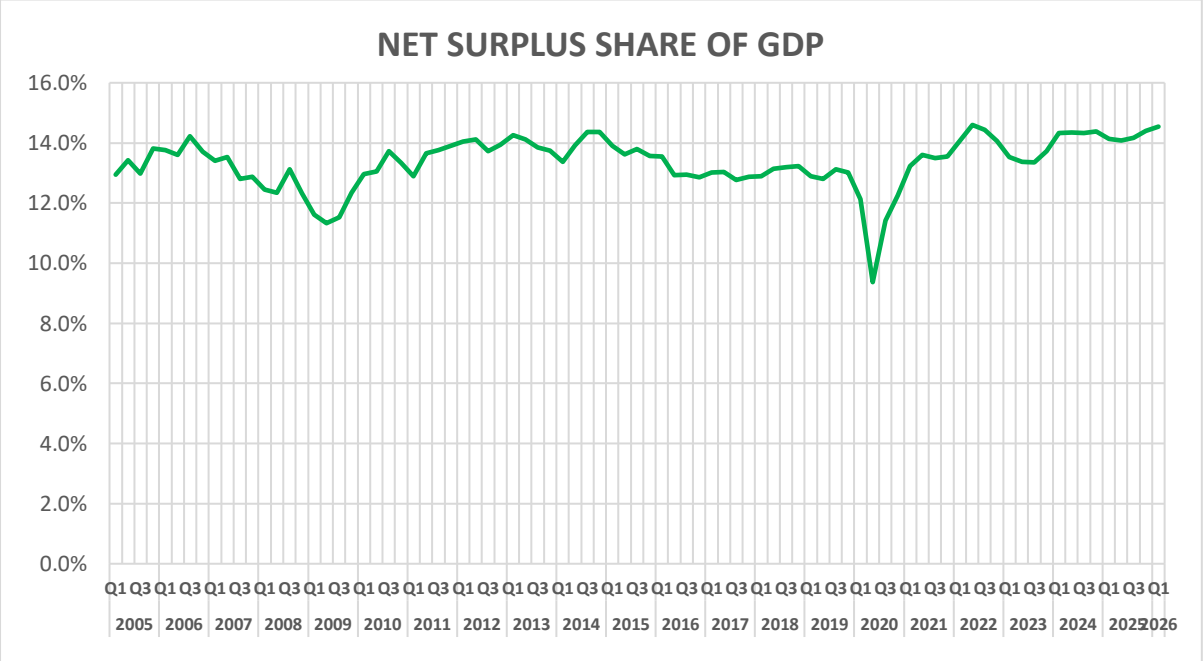
The rate of surplus value is rising modestly suggesting rising profits. This is the case and can be seen in the graph below. The deflator here in use is the one derived from Table 1.14 itself. Since 2022 the mass of profits have risen by the same amount as in the ten years up to 2019, a period two and a half times longer.

Graph 5.



And as a share of GDP, profits remain at a peak equal to the previous two peaks, the first found before the financial crash in 2006 and the second at the height of the Chinese investment boom in 2014.

Graph 6.

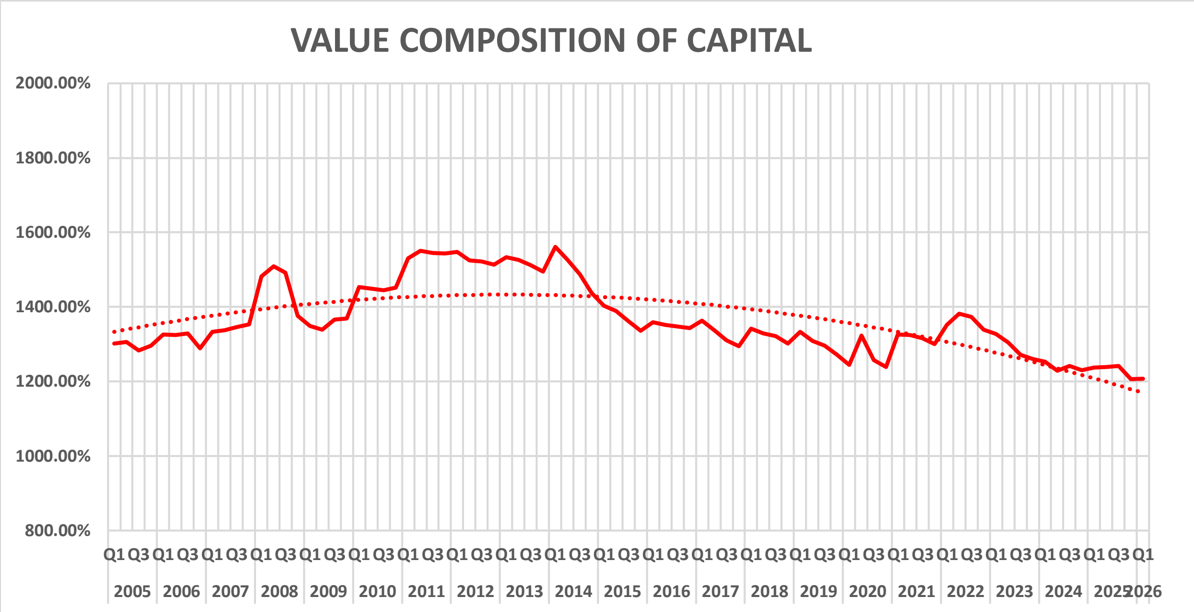


It is worth looking at Graph 13 in the spreadsheet which shows that profit margins are at an all-time high. This margin is based on total sales rather than the usual final sales making it more accurate.

We have now concluded our investigation of the income side forming the numerator in the rate of profit equation. It is now time to investigate the capital side which forms the denominator in the equation. In the graph below we find a benign composition of capital despite the recent investment

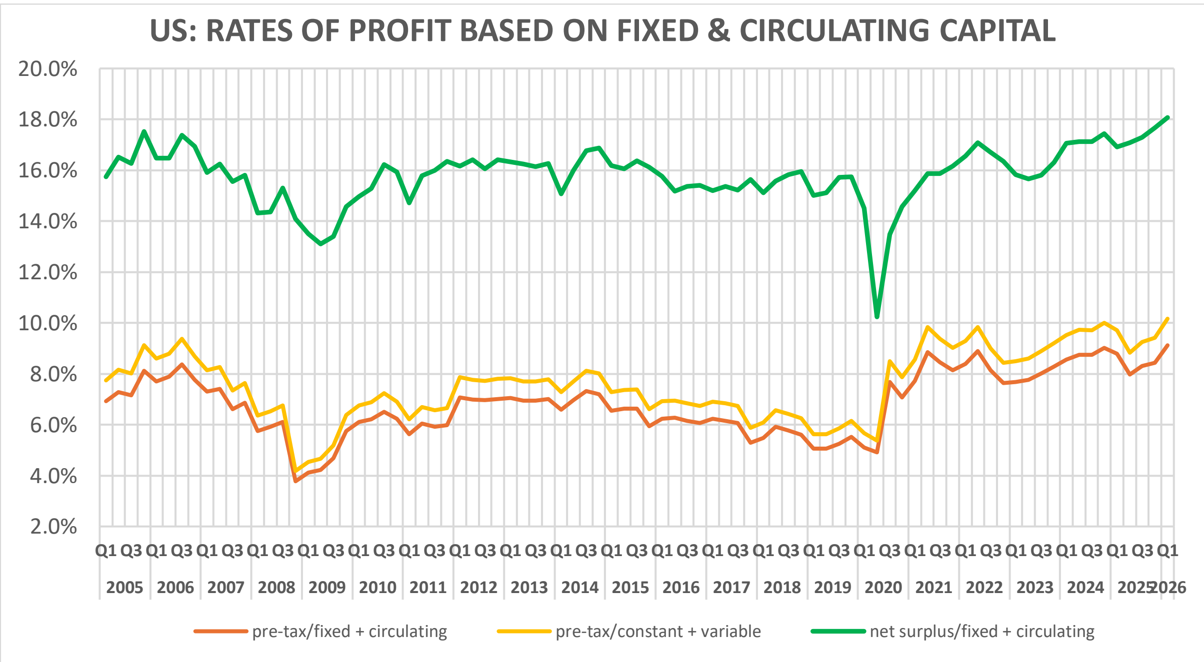
boom. Perhaps it will become elevated, or maybe not, given that much of the investment in the AI sphere, other than hardware, is immaterial production which is labour intensive despite what has been said about it. Immaterial production depresses the value composition of capital, and this needs more recognition. I use the term value composition not organic composition deliberately, because organic means comparing productivities, it requires comparing relative rates of productivity, not economy wide compositions which are covered by a single general rate of productivity.

Graph 7.



The combination of rising profits in Q1 together with a benign composition of capital should yield a rising rate of profit. It does. The rate of profit hit a new peak.

Graph 8.



Turning back to the mass rather than the rate of profit. Pre-tax profits in nominal terms rose 6.7% or 3.9% adjusted for inflation yoy (Line 47 Table 1.14). However much of that profit growth was provided for by the BIG 6. Below are two tables. (All data is annualised. 60% of total operating income as reported in financial statements is used to calculate the share earned in the USA.) The first Table is taken from my earlier article on Q4 profits showing the sharp growth in profits yoy (Table 1.) The second table compares the latest quarter yoy, Q1 2026. Of interest, the mass of profits of the BIG 6 fell by 10% between Q4 2025 and Q1 2026 while still rising sharply compared to Q1 2025. But this pause in the rise of profits did not halt the upward march in share prices.

Table 1. (2025 Q4 vs 2024 Q4)

Company	Profit 2024	Total	Percentage	Profit 2025	Total	Percentage
Nvidia	53018			103104		
Apple	102202			122405		
Amazon	53616			63852		
Microsoft	70476			115790		
Alphabet	77383			93881		
Meta	56527			60850		
TOTAL	**413222**	**2984600**	**13.84%**	**559882**	**3164400**	**19.16%**
Improvement						**+5.32%**
BIG 6 vs Total				**146660**	**-62900**	

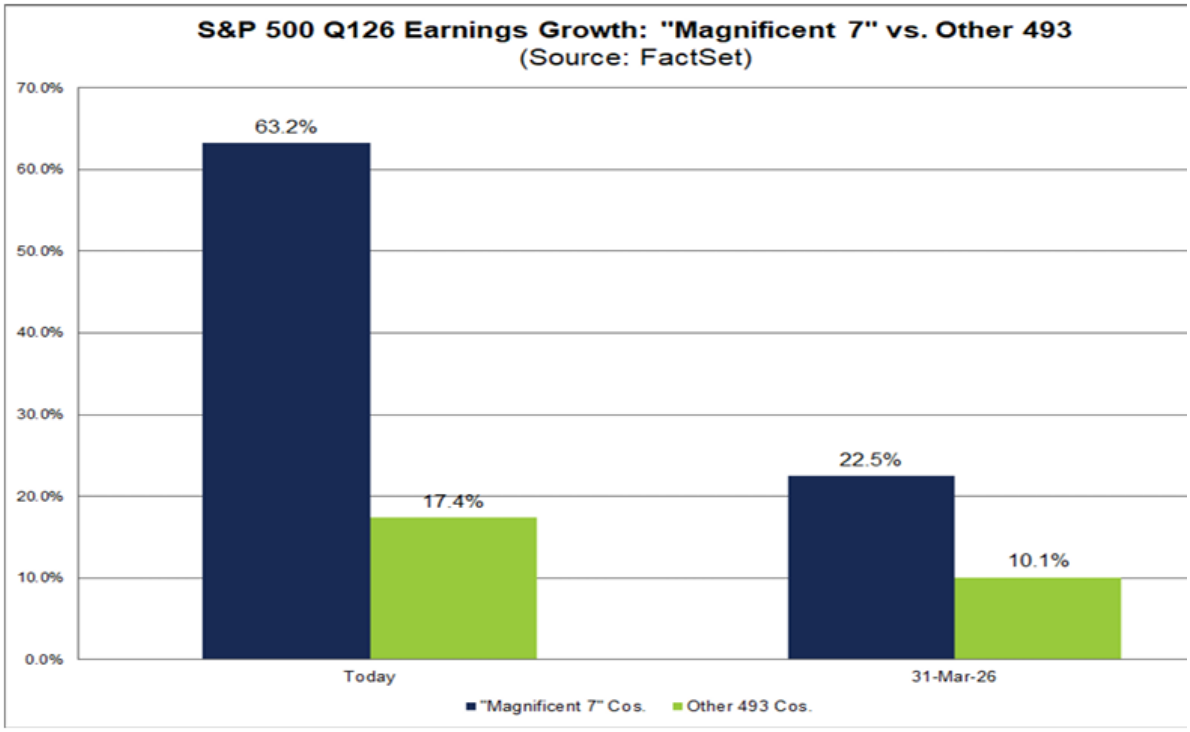
Table 2. (2026 Q1 vs 2025 Q1)

Company	Profit Q1 2025	Total	Percentage	Profit Q1 2026	Total	Percentage
Nvidia	51931			128486		
Apple	71014			86124		
Amazon	44172			57245		
Microsoft	76800			92155		
Alphabet	73454			95270		
Meta	42132			54893		
TOTAL	**359503**	**2967700**	**12.1%**	**514173**	**3164400**	**16.25%**
Improvement						**+4.2%**
BIG6 vs Total				**154670**	**196700**	

79% of the increase in non-financial corporate profits came from the BIG 6. But if we add in Micron, which I will do from now on, the BIG 7 accounted for 96% of the increase in operating income because Micron's annualised earnings rose by $34.925 billion yoy. Therefore, in real terms, without the contribution of these 7 AI giants, instead of a 3.9% gain in inflation adjusted profits, profits would have risen by a mere 0.2% and the rate of profit would have fallen marginally. In addition, this does not exhaust the list of smaller AI corporations whose profits also jumped.

This is why S&P 500 earnings soared this quarter. Earnings Growth according to FactSet's latest report: "*For Q1 2026, the blended (year-over-year) earnings growth rate for the S&P 500 is 28.4%. If 28.4% is the actual growth rate for the quarter, it will mark the highest earnings growth rate reported by the index since Q4 2021 (32.0%).*" The graph below shows that the outturn for the Magnificent 7 was three times higher than expected when estimates were first prepared before the reporting season at the end of March. MAG7 profit growth was three and half times greater than the rest of the S&P 500.

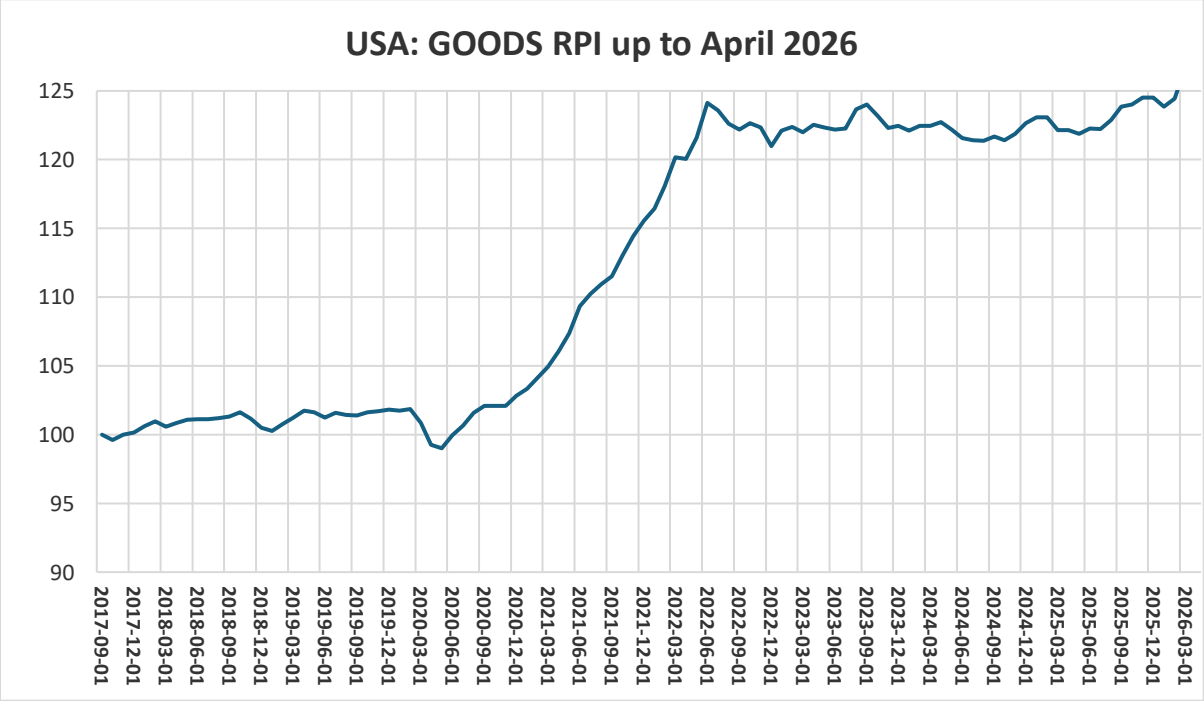
Graph 9.



The consumption side.

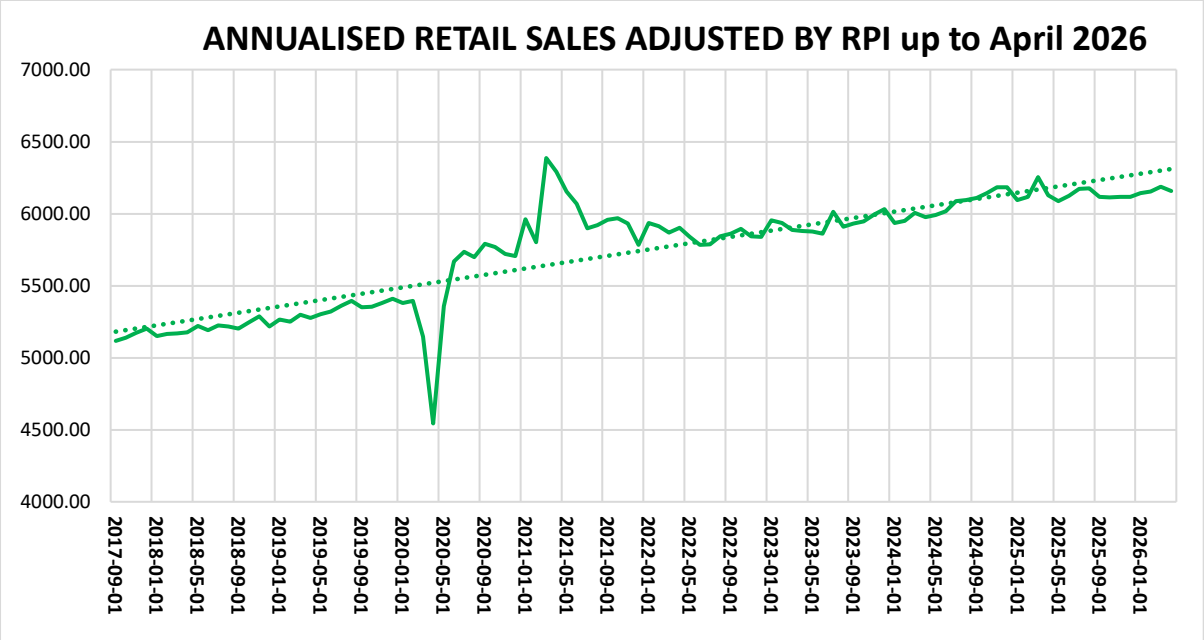
Goods inflation picked up in the quarter. Beginning to trend outside its narrow five-year range. This was likely due to the supply disruptions caused by the closure of the Straits of Hormuz plus the overinvestment in AI.

Graph 10.



This higher rate of inflation took the wind out of the sails of nominal retails sales. Though Dollar retail sales looked robust, once they were adjusted for price rises, volumes flat-lined. Retail sales have gone nowhere for over 18 months. It appears that the growth in consumption of the top 10% has merely offset the fall in consumption by the bottom 80%. Additionally, the tax give-aways from Trump's *Big Beautiful Bill* beginning in March, whose impact would first be seen in the form of additional retail sales, does not seem to have been meaningful. It is likely that higher prices have been a headwind to additional purchases especially as job hiring has stopped, real wages have fallen and house prices are subsiding.

Graph 11.



Consumer surveys have reached distress levels as can be seen from the University of Michigan's consumer survey for May.

Final Results for May 2026

	May 2026	Apr 2026	May 2025	M-M Change	Y-Y Change
Index of Consumer Sentiment	**44.8**	49.8	52.2	-10.0%	-14.2%
Current Economic Conditions	**45.8**	52.5	58.9	-12.8%	-22.2%
Index of Consumer Expectations	**44.1**	48.1	47.9	-8.3%	-7.9%

But perhaps the best survey of all is Trump's disapproval rating driven mainly by North American's disapproving of his handling of the economy. The gap on his handling of the economy is now minus 40% a record high. Worse for Trump disapproval has begun to infiltrate demographics where once support appeared to be rock solid, especially amongst young white males under 30, where a gain of +1 at the time of the election fell to a staggering -55 now.

Conclusion.

In a later article on the US economy, I will deal in greater detail with issues such as bankruptcies and the growing debt crisis. This article was devoted to the lopsided profitability of the US economy and how consumption was impaired despite the AI boom continuing to boost the propensity to spend by the top 10% of income earners. The US economy remains unhealthy. Underneath the veneer of the AI boom, subterranean debt currents continue to swirl. Suffice to say we are now well into the middle of Phase 2 of the unregulated or shadow banking crisis, defined by the amount of investment going into it versus the amount being pulled from it with the latter in the ascendancy.

I will shortly be examining profitability in Germany and Japan having done so already for China. However, it worth saying that in April profitability continued to strengthen in China at an accelerating rate, again fuelled by AI. Whether this four months of data confirms a newly established trend is in the balance. One thing is for sure there are currently no indications the AI bubble is leaking despite expectations of the potential of this technology becoming more measured and realistic.

Brian Green, 30th May 2026.