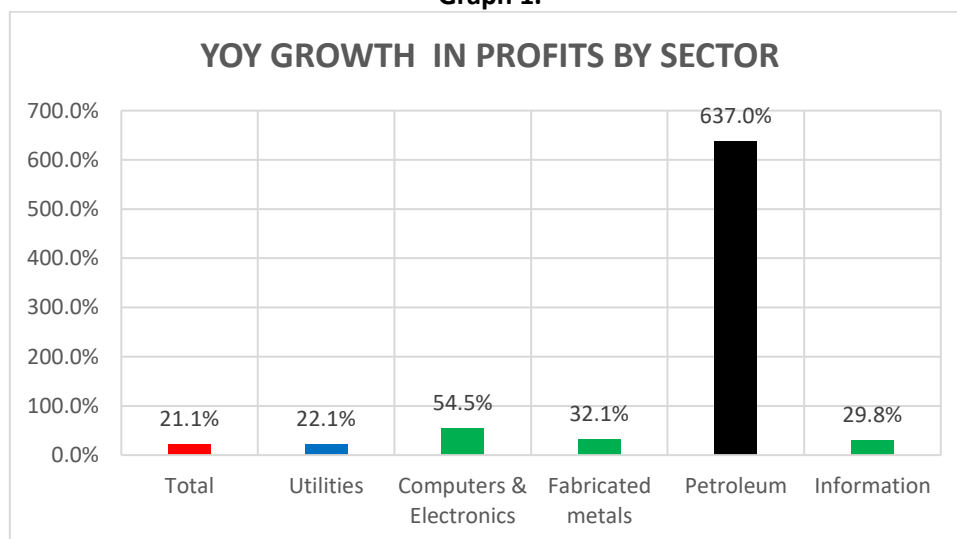


## FINAL EXAMINATION OF US Q2 2026 DATA.

*This article includes turnover data made possible by the release by the BEA of GDP-by-industry data as well as the refinement of [profit data](#) including a more granular analysis of the sectors in which the sharp rise in Q2 profits originated.*

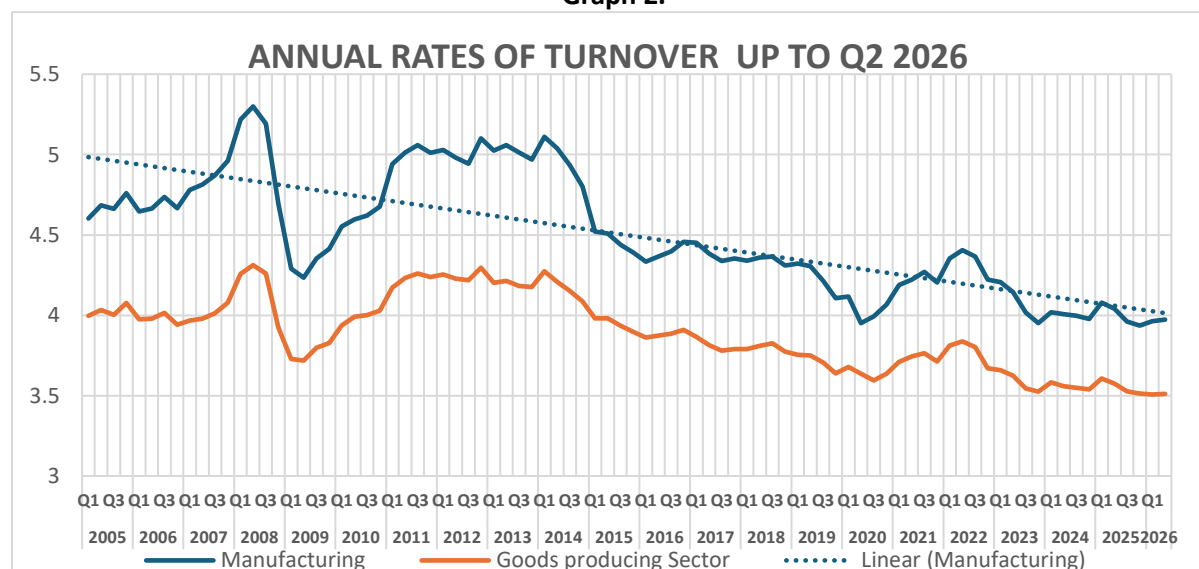
I will begin with profits. In my [first report on US profits](#), I noted two surprises. Firstly, the surge in non-financial corporate profits yoy. Secondly, the much smaller contribution to this surge from the Big Tech corporations. To more fully answer where the profit growth came from, we needed the up-to-date release of [NIPA Table 6.16D](#). It is now here. The graph below shows the sectors where profits rose. Slightly more granular, it confirms the original analysis without any material changes including to the general rate of profit. The green graphs directly relate to hyper scaling, the blue graph indirectly. In addition, the [second release of profits](#) by the BEA reduced profits by 5% completing the picture I first presented. In sum profit growth was more broadly based than just AI.

Graph 1.



The [release of data](#) also allowed me to prepare the annual rates of turnover in key sectors.

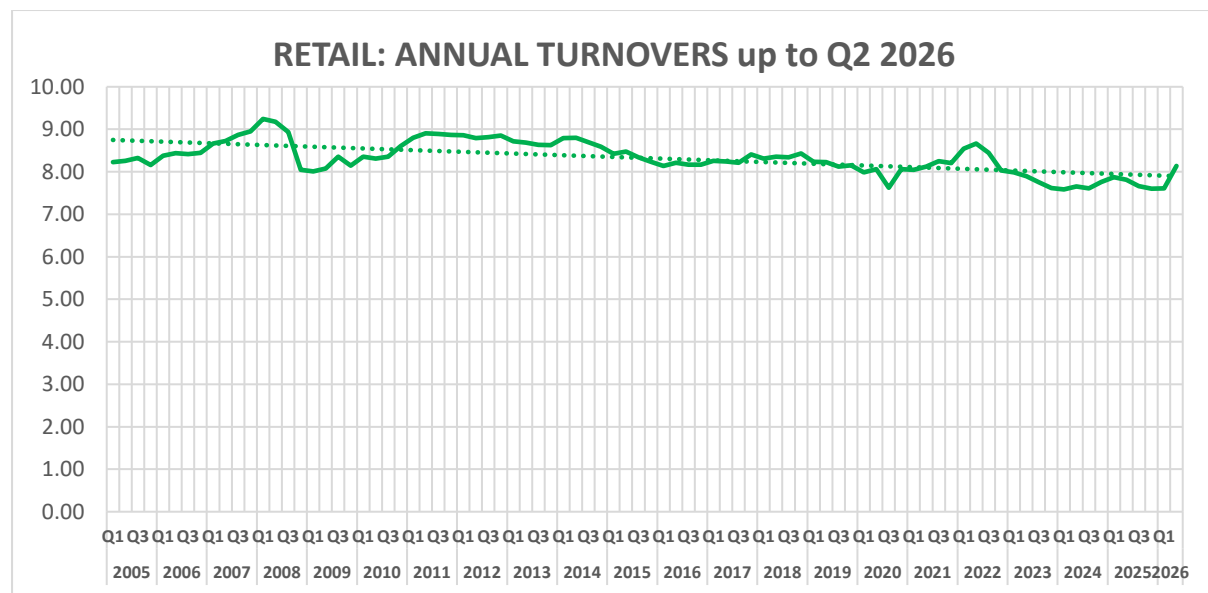
Graph 2.



Turnover remain subdued but stable. The annual rate in the manufacturing sector was 4 and, in the goods-producing sector it was 3.5 representing turnover periods of around 90 days in the manufacturing sector and 104 days in the goods producing sector. In case readers are concerned about the length of the turnover period bear in mind it includes the payment period. For example, Fortune 500 companies take an [average 48 days](#) to clear their bills payable.

In the BEA release cited above, real final sales to private domestic purchasers rose by 1.8% qoq and by 4.4% yoy. A strong performance. This is reflected in the rate of turnover in the retail sector.

Graph 3.



But despite higher volumes margins were down. According to Table 6.16D retail profits only rose by 1.4% yoy well below the rate of inflation of 5.6% for final purchases. This correlates to the discounting found amongst supermarkets such as Walmart and Kroger as well as brand discounting by the likes of PepsiCo to support sales. As a result, retail subtracted 0.27% from GDP growth. A confusing picture.

However, overall retail sales did improve over the last two months. Reports suggest this was due to forward buying driven by inflation expectations rather than income expectations. This can be seen in the results from the [University of Michigan](#) survey where respondents discussed their fears of increased fuel prices and disruptions.

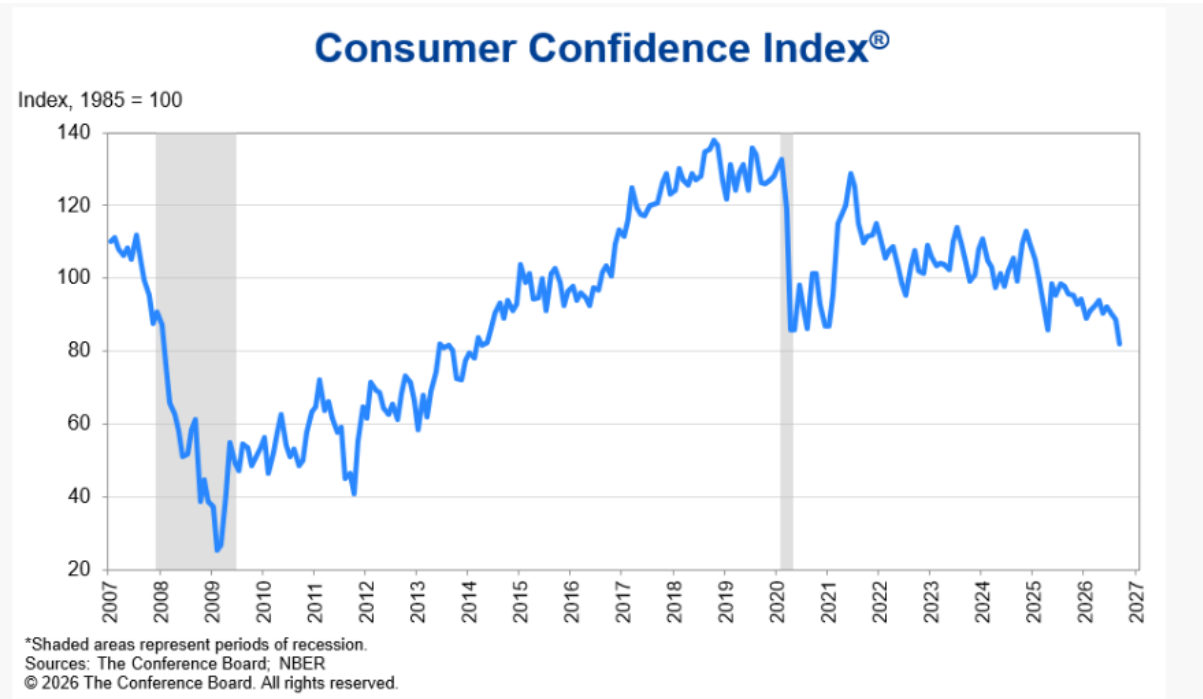
Table 1.

## Final Results for September 2026

|                                | Sep<br>2026 | Aug<br>2026 | Sep<br>2025 | M-M<br>Change | Y-Y<br>Change |
|--------------------------------|-------------|-------------|-------------|---------------|---------------|
| Index of Consumer Sentiment    | 48.1        | 51.7        | 55.1        | -7.0%         | -12.7%        |
| Current Economic Conditions    | 50.9        | 51.9        | 60.4        | -1.9%         | -15.7%        |
| Index of Consumer Expectations | 46.3        | 51.5        | 51.7        | -10.1%        | -10.4%        |

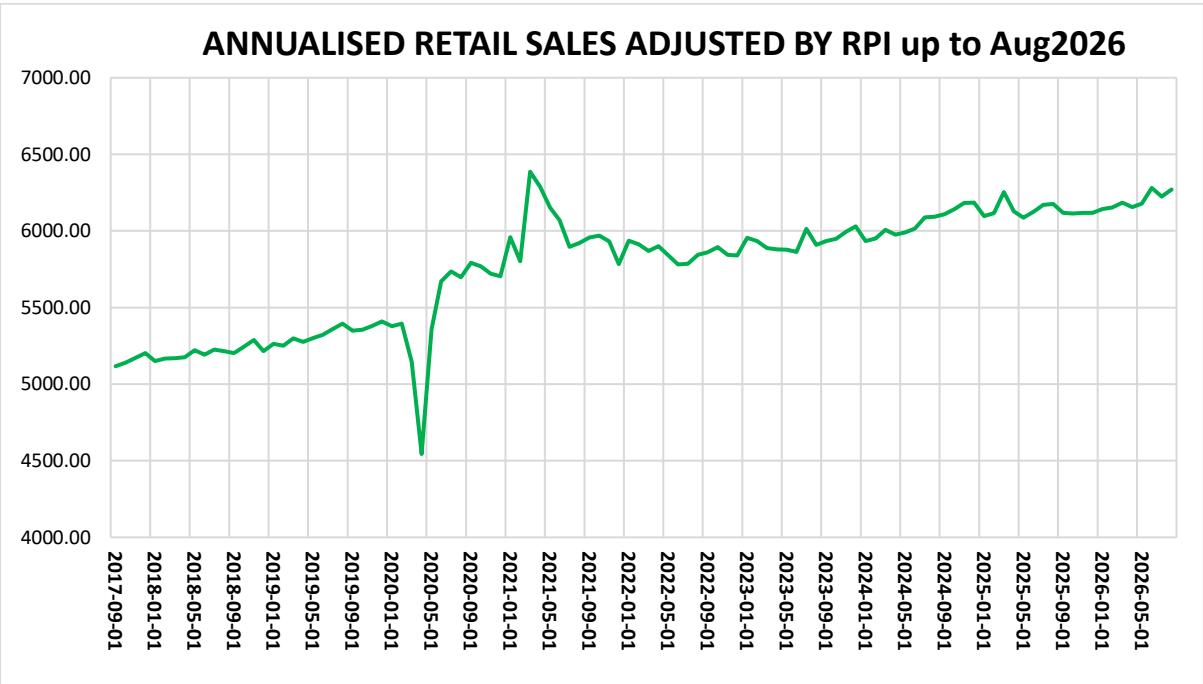
Similarly, the equally authoritative [Conference Board](#) survey returned the same three-month fall in consumer confidence and expectations with levels falling back to the depths of the Pandemic.

Graph 4.

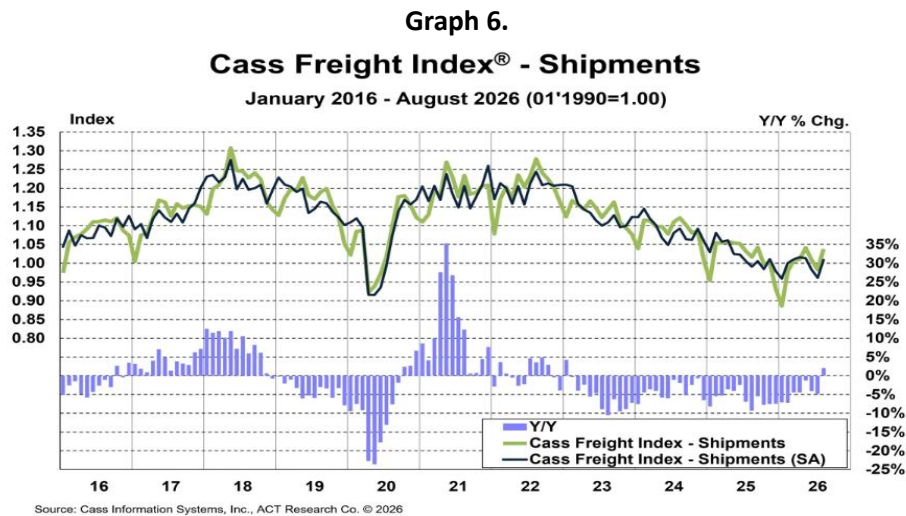


Despite this lack of consumer confidence going into the mid-term elections, but because consumers expect conditions to worsen in terms of price and supplies, retail sales adjusted for price changes rose in August. Once again, with stock prices elevated but plateauing, it is likely that retail sales were propped up by the spending of the top 10% of income earners responsible for half of retail sales.

Graph 5.



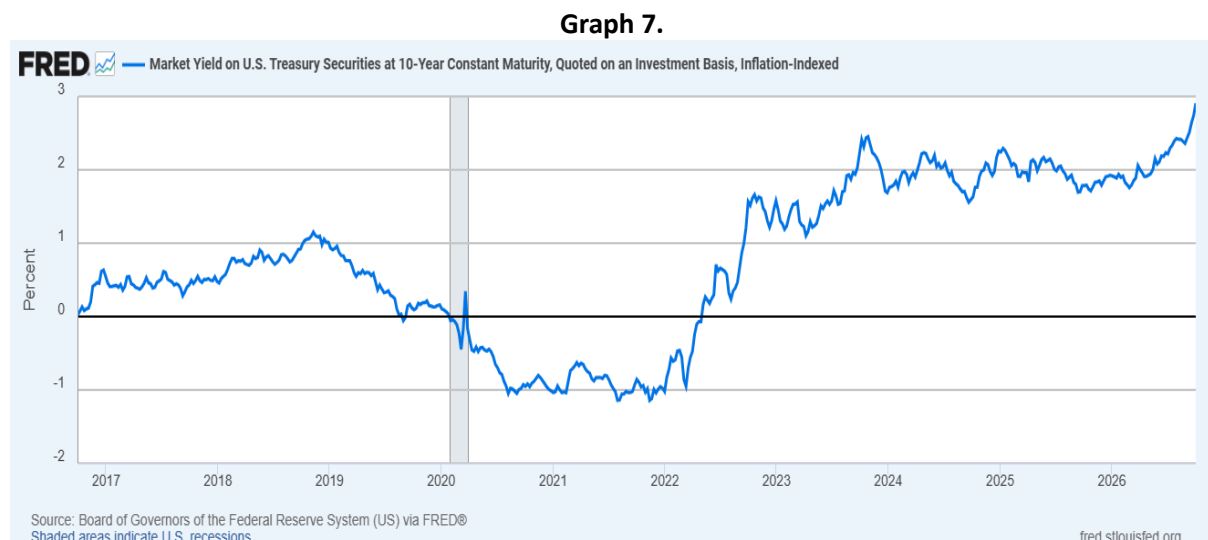
The near panic buying in August was supported by an uptick in shipments.



This brief panic buying episode does not disguise the weakness in the rest of the economy. The bottom 80% of the population are struggling as numerous corporate reports show, and this may have implications for inflation despite the supply shocks emanating from the Gulf Blockade and the AI over-investment. One factor is oil. With talk of curbs on US exports of oil and product, the gap between Brent futures and WTI futures has widened from 3-5 dollars all the way to [10 dollars](#). If enacted, reducing exports will lead to marginally cheaper gasoline and diesel in the USA and higher prices elsewhere.

Turning to inflation proper. Readers will recall that I estimate inflationary neutral monetary conditions when unspent revenues total around 90% of M2. In Q2 the following held. National income in nominal terms rose by \$1787 billion yoy, the [budget deficit](#) by \$80 billion and net bank credit [by \\$175 billion](#), or in percentage terms, the budget deficit was 3.9% and bank credit was 8.6% while national income was 87.5% tending slightly towards inflationary conditions. Translated into the money supply \$977 billion of the increase of \$1116 billion in M2 resulted from unspent income in cash and deposits.

The TIPS ([Treasury Inflation-Protected Securities](#)) index though rising remained below 3%. It's one of best market indicators for future inflation and a recognised hedge protecting investments.



Looking forward, despite the AI boom, the July and August bank credit position, according to the latest Federal Reserve report cited above, is flat compared to the previous year improving the inflationary outlook. In addition, in August, the cumulative 11-month budget Federal deficit was no higher than for the corresponding period in the previous financial year. Finally, the unregulated banking sector is experiencing withdrawals exceeding investments suggesting credit creation there remains subdued as well. All in all we may finally be seeing the turn in the credit cycle from expansion to contraction. Thus, it is likely that debt will play a smaller role in circulating commodities, and that is always a headwind for inflation. The confounding factor is whether the US attacks Iran again in a war that will end the stalemate once and for all but may crack the world economy in doing so, leading to an intense bout of inflation followed by longer term deflationary conditions.

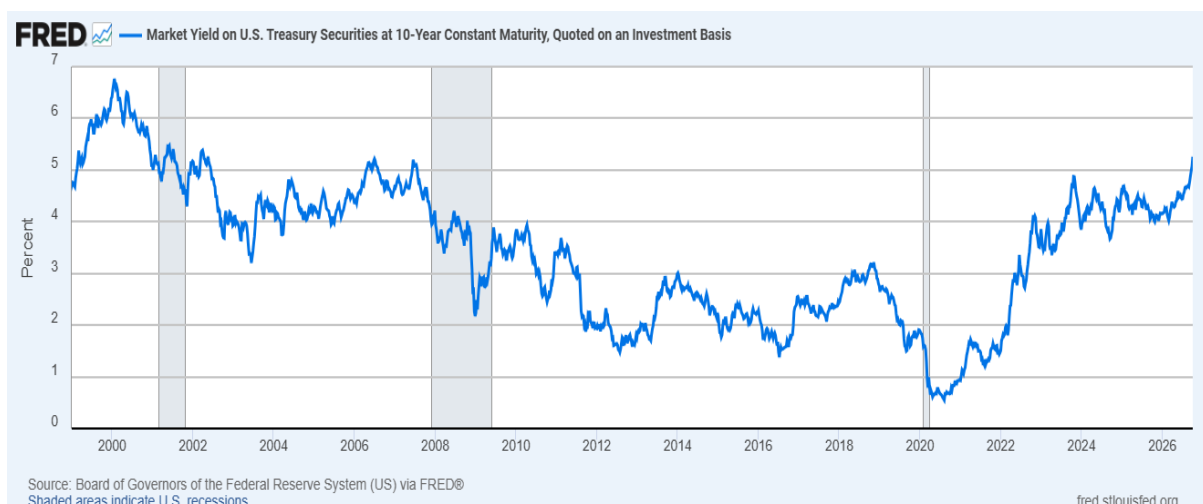
Other headwinds are the job market and the housing market. I was not surprised that the employment data for August came in so weak that it missed the bottom end of all surveys. With the 10-year yield touching 5.3% beginning to weigh heavily on the stock market and liquidity and with the markets convinced the FED was going to raise its lending rate this month, the last thing investors and speculators needed was a strong jobs report. A whiff of fraudulent reporting, possibly, but it did the trick settling the markets and reducing the bets of another FED rate hike.

The housing market continues to subside. Mortgage rates rose to their [highest level in 4 years](#). Housing permits were issued at post pandemic lows while new private house building fell back to the 1.3 million level. [Redfin](#) reported housing sales at a 2-year low with the [Balance of Power: Buyers and Sellers](#) in August at a record with 57.9% more sellers than buyers. According to [Zillow's](#) weighted square footage report, house prices yoy rose a meagre 1.4% well below inflation, while house sales were down 5.7%. Not quite Chinese yet but heading in that direction.

### Interest rates.

Another head wind are interest rates. The crucial ten-year yield has decisively breached the psychological 5% barrier, and some pundits are even looking towards 6%. The yield is the highest nominal yield this century though not the inflation adjusted yield. Nevertheless, the nominal is what investors collect in interest currently and it is the one against which share returns are judged.

**Graph 8.**



For the first time credit spreads are widening between investment and non-investment grades. Triple BBB yields have risen by over one percent this year while High Yield bonds have risen by nearly 2% to 8.22%. In the AI space, taking Softbank's current borrowing requirements, they are trending towards 9-10% on new borrowings.

**Graph 9.**



These high yields explain why Nvidia is so keen to backstop investment by smaller companies who would be paying an interest rate close to 10% to buy chips and build data centres. What cannot be explained is why Nvidia finds it's necessary to look for new markets and customers when it claims to have effectively sold its output at least a year ahead. I will not go into greater detail on the AI bust but refer the reader to [Michael Roberts](#) excellent piece on AI. The only element in his analysis I disagree with is using GDP as the measure of investment when comparing say the size of the Railroad Bubble in the 19<sup>th</sup> Century to the AI Bubble today. Today's GDP calculations based on input output tables only existed since the Second World War, prior to that GDP was an educated guess.

What also needs to be elaborated is the threat posed by Chinese open source and open weight models which are four to six times cheaper to deploy than their US counterparts. The surge in worldwide usage is impressive as this [CNBC report](#) shows: "Chinese AI models have gone from a relatively small share of usage to a majority on two major developer platforms that provide gateways for companies to access models from different providers. On OpenRouter, they accounted for 57%-67% of tokens used in the week of Sept. 14, up from 6%-13% in February. On Vercel, their share rose to 55% in August from 11% in January." And as the graph in the article shows, they have already captured 50% of the US market.

All of this makes it increasingly improbable that the hyperscalers will ever see a return on their investments. Wall Street is still ignoring the threat of the chipped red swan waddling up the Hudson River believing if it gets too close it will be torpedoed by USN Trump. But it may be too late for that already.

What is true is that the AI bubble may be running out of bytes.

Conclusion.

Normally an article like this focuses on economic data. But the geopolitical developments preclude this. At Valdai Putin was not wrong to assert the world was in a dangerous place. This followed Russia

issuing a stark warning that if Kaliningrad was blockaded or threatened Russia would consider using its nuclear arsenal, after which the belligerent rhetoric from the Baltic States and Finland quietened. In Ukraine, Kyiv is following the rest of the country, becoming unliveable as Ukraine's infrastructure is torn apart.

But the biggest threat is in the Gulf. It appears the US is building up to the grande finale. A country which believes it rules the planet will not easily concede the second most important strategic waterway on the planet to a regional power such as Iran. The US build up is reaching a critical stage. By November the US Navy will have three aircraft carriers on station, the minimum number needed for around the clock sorties against Iran. In addition, Israel is beating its chest confident that the US will be attacking Iran. It is unlikely the US will invade Iran. Oman is more likely given the aborted hijack/crash of an airliner by an Omani pilot acting as a pretext. Occupying Oman will mean occupying the opposite side of the Straits of Hormuz and put US special forces close to Yemen. It will give the US partial control of the Straits without risking aircraft carriers now known to be vulnerable to Iranian missiles.

The less likely scenario is that the US is applying pressure on Iran for a fake deal before the elections so Trump can strut the stage once more playing the role of peacemaker president.

Whatever the case, all of this will take place as Hell Nino reaches its catastrophic zenith. If full scale war breaks out then Humpty Dumpty Al sitting on a Wall (Street), will fall, and all the FED men will not be able to put the economy back together again. That is why any forecast of the world economy at this stage is indolent guesswork.