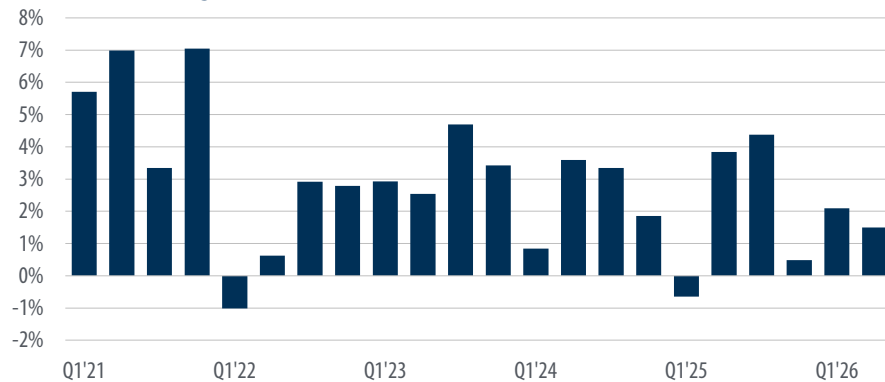


Real GDP: Steady Growth, Unsteady Drivers

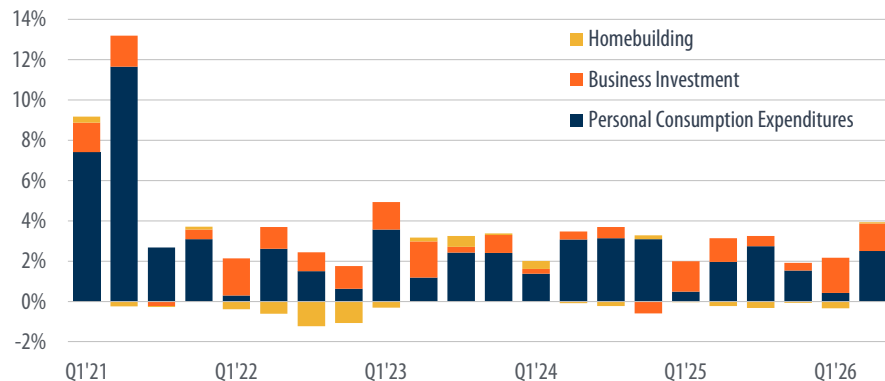
With the preliminary estimate of Q2 Gross Domestic Product (“GDP”) released this morning, the U.S. economy grew at an annual rate of 1.8% in the first half of 2026, slightly lower than the 2.0% in 2025. But beneath the headline, the story is far more uneven. Much of this year’s growth is being driven by an unprecedented surge in Artificial Intelligence (“AI”)–related investment. Excluding the GDP components most directly tied to AI (equipment and intellectual property), real GDP grew at just a 0.3% annualized rate in the first quarter and was unchanged in the second. In other words, without the ongoing boom in AI investment, U.S. economic growth would be close to stagnant. In this week’s “Three on Thursday,” we break down what’s driving GDP growth, where the economy is gaining momentum, and where it is beginning to slow. The three charts below tell the story.

Annualized Change in U.S. Real GDP



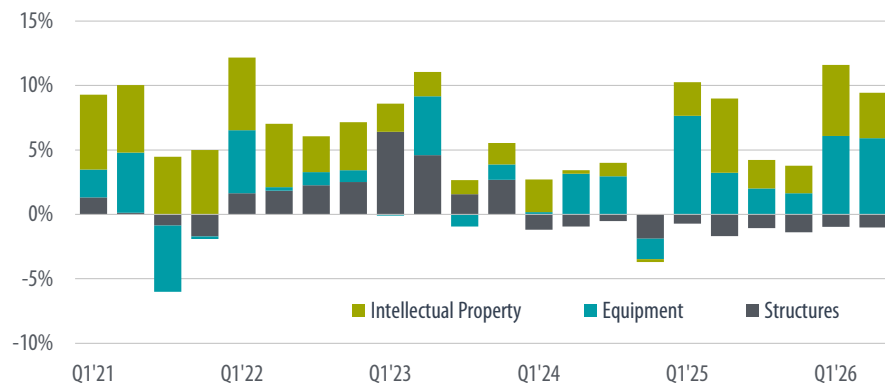
Source: Bureau of Economic Analysis, First Trust Advisors. Quarterly data from 1Q 2021 to 2Q 2026. Data are the seasonally adjusted annual rate.

Contributions to Core GDP



Source: Bureau of Economic Analysis, First Trust Advisors. Quarterly data from 1Q 2021 to 2Q 2026. Data are the seasonally adjusted annual rate.

Contributions to Business Investment



Source: Bureau of Economic Analysis, First Trust Advisors. Quarterly data from 1Q 2021 to 2Q 2026. Data are the seasonally adjusted annual rate.

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Real GDP measures the inflation-adjusted value of all final goods and services produced within the United States. By removing the effects of changes in prices, it provides a clearer picture of changes in actual economic output than nominal GDP, which can rise simply because prices increase. In short, real GDP answers a fundamental question: Is the economy producing more goods and services, or are prices just higher? In the second quarter of 2026, real GDP increased at a 1.5% annualized rate, following a 2.1% gain in the first quarter. A significant share of recent growth has been driven by strong business investment, particularly in equipment and intellectual property, reflecting the ongoing surge in AI-related spending and data center development. Outside of these investment categories, the pace of economic growth has been considerably more modest.

Our preferred measure of underlying private-sector demand, what we refer to as “core” GDP, includes consumer spending, business fixed investment, and residential construction while excluding inventories, government purchases, and international trade. Consumer spending is by far the largest driver, accounting for roughly 68% of GDP. Residential construction, which is highly sensitive to interest rates, was a major drag following the Fed’s rate hikes in 2022 and continues to be a modest headwind. Meanwhile, business fixed investment, though a much smaller share of the economy than consumer spending, has become a significant driver of growth, rising at a 9.5% annualized rate in the first half of the year, compared to just 1.8% in consumer spending over the same period. Much of this strength reflects the surge in AI-related capital spending, with the major hyperscalers on pace to invest nearly \$700 billion in capital expenditures this year as they continue expanding data center infrastructure.

Private domestic nonresidential fixed investment, commonly referred to as business investment, measures spending by businesses on long-lived productive assets. It consists of three major categories: structures, equipment, and intellectual property products. Business investment is up 6.1% over the past year, including a robust 8.4% annualized gain in the second quarter of 2026, but growth has been far from uniform across these categories. Structures investment surged in 2022 and 2023 as the CHIPS Act and Inflation Reduction Act encouraged construction of semiconductor and clean-energy manufacturing facilities. Since 2024, however, structures investment has turned negative and has weighed on overall business investment. How can that be given the recent boom in data center construction? Because the bulk of the money spent on a data center isn’t the structure itself, it’s what goes inside it. The “guts” of a data center—GPUs, servers, networking hardware, and other computing infrastructure—are classified as equipment, while software development and research & development are counted as intellectual property products. These two categories have powered business investment growth in recent quarters as companies continue investing heavily in AI infrastructure.