AIER Research Reports

Volume XCI
June 2026

AIER

Research Reports

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 8 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including Seeking Alpha, Intellectual Takeout, Mises Brasil, and dozens of other outlets. To read all of them, go to www.aier.org

Contents

June 2026

From the Managing Editor

Peter C. Earle
Senior Research Fellow

Global bond markets are beginning to price in a troubling possibility: inflation may no longer be an episodic disturbance but an enduring feature of the global economic landscape. The immediate catalyst is the latest energy shock stemming from the war with Iran, yet investors seem concerned that the problem runs deeper. After years in which globalization, cheap energy, technological efficiency, and relative geopolitical stability helped suppress inflation, the global economy may be entering a more volatile and structurally inflation-prone era.

The immediate concern is straightforward. Energy flows through the Strait of Hormuz, one of the world's most strategically important shipping chokepoints, have been disrupted. Oil, natural gas, fertilizers, and industrial inputs moving through the waterway affect transportation costs, food production, and supply chains worldwide. Airlines have altered routes, gasoline prices have climbed, and agricultural producers are reassessing costs amid uncertainty over fuel and fertilizer prices. Markets have weathered similar disruptions before, but what makes this episode different is not the shock itself, but the economic environment into which it arrives.

The global economy has not fully shed the inflationary residue of the Covid pandemic. Inflation rates have declined from their 2021–2023 peaks, yet price levels remain elevated, and core inflation, particularly in services, has remained stubborn across advanced economies. Consumers may no longer face annual inflation rates of **8** or **9 percent**, but few feel relief when necessities remain permanently more expensive than before. It matters because inflation expectations — the beliefs households, businesses, and investors hold about future inflation — play a crucial role in determining whether inflation becomes self-reinforcing.

Central banks have long emphasized the importance of anchoring inflation expectations. If consumers believe inflation shocks are temporary, wage demands remain restrained and firms hesitate to impose large price increases. But repeated inflation shocks can erode confidence. Businesses anticipating higher costs raise prices more aggressively, workers seek larger wage gains, and bond investors demand higher yields to compensate for inflation risk. In this way, inflation can shift from a temporary disturbance to a more persistent regime.

Bond markets increasingly appear cognizant of that possibility. Long-term government bond yields across advanced economies have climbed to levels not seen in years, reflecting concern that central banks may need to maintain higher policy rates for longer. Rising yields suggest a reassessment of the long-run economic environment. Investors increasingly appear to be asking whether the post-2008 world of near-zero rates and subdued inflation was the anomaly rather than the norm.

Markets are already positioning accordingly. Capital has increasingly migrated toward commodities, energy infrastructure, inflation-linked securities, real estate, and firms with strong pricing power. Gold has surged to repeated highs, while Treasury Inflation Protected Securities (TIPS) remain attractive despite elevated real yields. Equity investors have rewarded companies able to pass higher costs onto consumers or benefit from reshoring, industrial bottlenecks, and infrastructure spending. If the previous decade rewarded long-duration assets and assumptions of permanently cheap capital, the next may increasingly reward scarcity, resilience, and pricing power.

Structural developments help this shift. Geopolitical fragmentation is becoming costly. Supply chains once optimized for efficiency are increasingly being redesigned around political vulnerabilities. "Friendshoring," export controls, tariffs, sanctions, and domestic manufacturing incentives may improve security, but they do so at the expense of efficiency. Elevated public debt, large deficits, industrial subsidies, military rearmament, and repeated fiscal interventions worldwide create sustained demand pressures in economies already facing supply constraints. This poses a difficult challenge for central banks. Raising rates may contain inflation but also increase borrowing costs for governments now carrying historically large debt loads. Some economists increasingly worry policymakers may face pressure to tolerate somewhat higher inflation to ease fiscal strains — a dynamic often described as fiscal dominance.

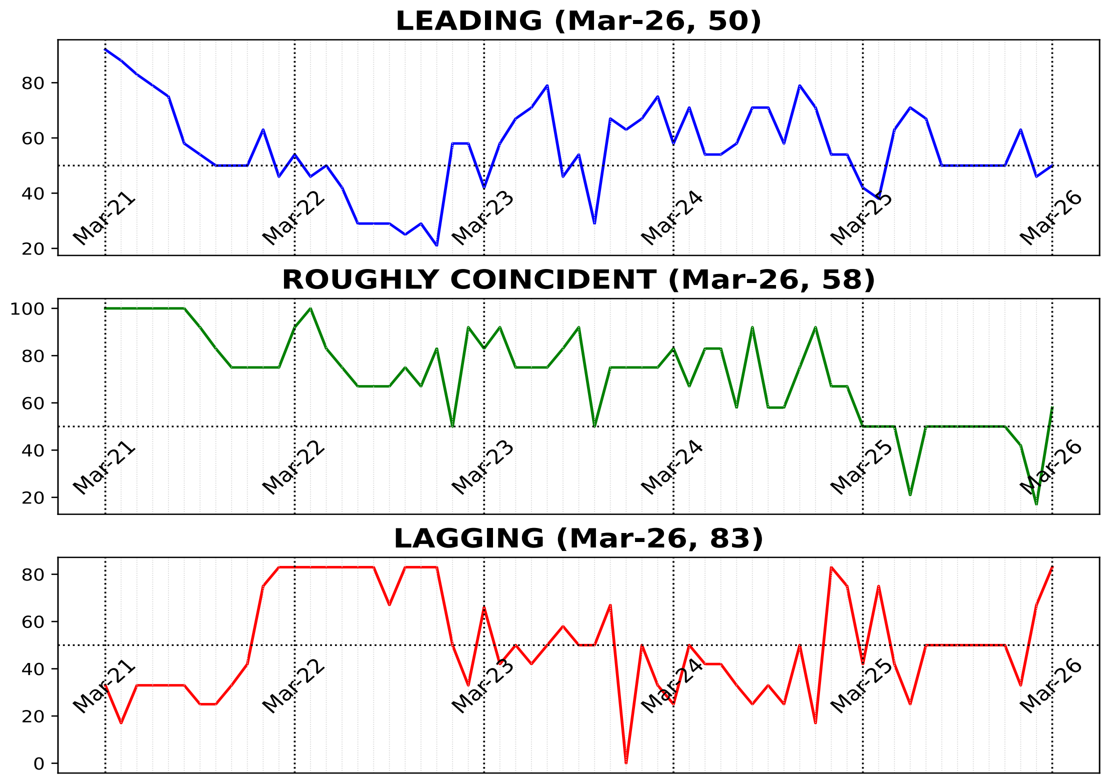
None of this guarantees a replay of the 1970s. Today's economy is more technologically dynamic, labor markets are less unionized, and central banks remain more institutionally independent. The deeper question is not whether inflation will remain permanently high, but whether it will become more volatile, recurring, and difficult to suppress. A world marked by geopolitical instability, recurring supply disruptions, industrial competition, fiscal expansion, and shifting supply chains may simply be less stable than the one investors grew accustomed to over seven decades. If so, bond markets may be sending an important signal: inflation may no longer be merely a policy concern, but something markets increasingly position for, hedge against, and organize around: a new, unwelcome, asset class.

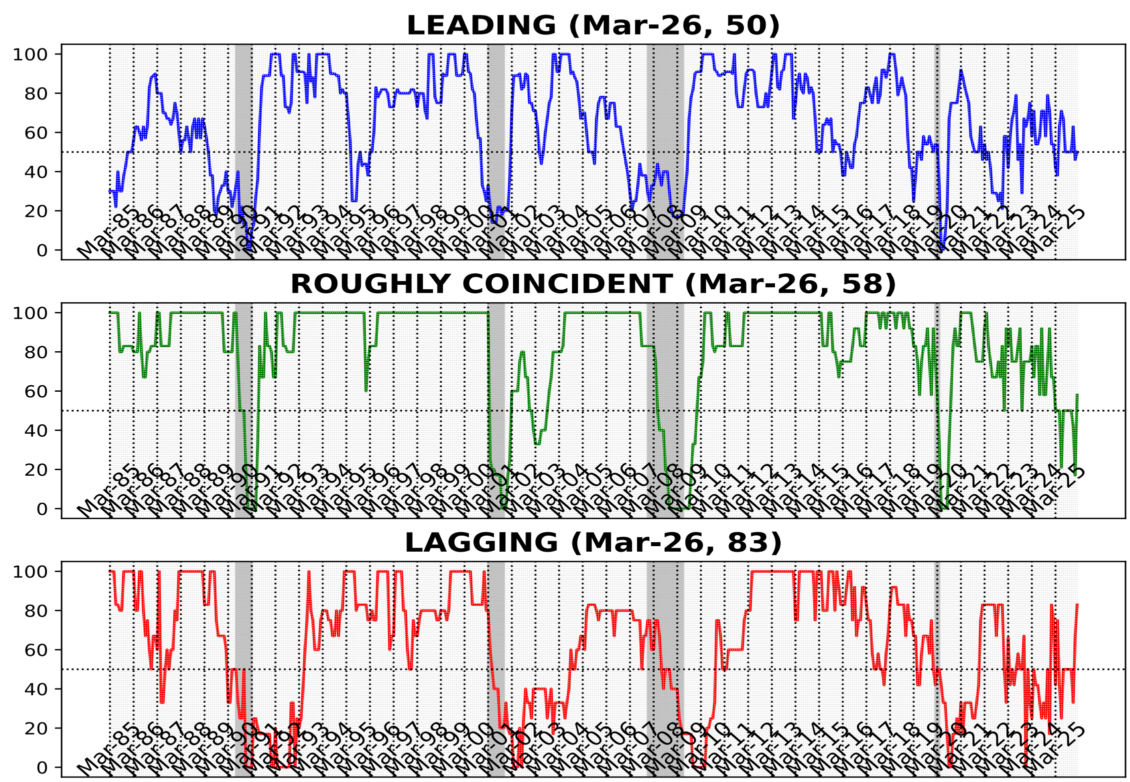
Peter C. Earle, Ph.D
Managing Editor, *AIER Research Reports*

June 2026

Business Conditions Monthly March 2026

Peter C. Earle
Senior Research Fellow


LEADING (Mar-26, 50)
ROUGHLY COINCIDENT (Mar-26, 58)
LAGGING (Mar-26, 83)
Mar-21
Mar-22
Mar-23
Mar-24
Mar-25
Mar-26


LEADING (Mar-26, 50)
ROUGHLY COINCIDENT (Mar-26, 58)
LAGGING (Mar-26, 83)

The March 2026 AIER Business Conditions Monthly (BCM) points to a mixed, still uneven economic outlook. Forward-looking data improved from the prior month, though not convincingly; measures of current activity were somewhat firmer; and lagging indicators remained the strongest of the three categories. At the same time, at least one data point in the coincident group appears unusually large relative to the surrounding series, so the month's results should be read with some caution.

LEADING INDICATOR (50)

The The Leading Indicator came in at **50**, with six of 12 components improving, none unchanged, and six deteriorating. Positive movement was spread across several demand-sensitive and forward-looking series. US Average Weekly Hours All Employees Manufacturing SA rose **0.2 percent**. US Initial Jobless Claims SA fell **5.1 percent** and counted as a positive after inversion. Conference Board US Leading Index Manufacturers' New Orders Consumer Goods and Materials increased **0.7 percent**. Conference Board US Manufacturers New Orders Nondefense Capital Goods Ex Aircraft advanced **4.1 percent**, US New Privately Owned Housing Units Started by Structure Total SAAR rose **4.9 percent**, and Adjusted Retail and Food Services Sales Total SA increased **1.8 percent**.

Those gains were offset by weakness elsewhere. University of Michigan Consumer Expectations Index fell **8.7 percent**, while Conference Board US Leading Index Stock Prices 500 Common Stocks declined **3.4 percent**. Inventory to Sales Ratio Total Business eased **0.8 percent**, United States Heavy Trucks Sales SAAR dropped **2.4 percent**, and Debit Balances in Customers Securities Margin Accounts decreased **2.6 percent**. The 1-Year to 10-Year US Treasury Yield Spread widened **43.0 percent**, but because that measure is one of the inverted series, it was scored negatively.

On balance, the leading data suggest an economy that is not uniformly weakening, but still lacks broad-based thrust. Strength in orders, housing, and retail activity was offset by softness in sentiment, equities, and selected financial indicators.

ROUGHLY COINCIDENT INDICATOR (58)

The Roughly Coincident Indicator registered **58**, with three of six components improving, one essentially unchanged, and two declining.

The strongest contributions came from Conference Board Coincident Manufacturing and Trade Sales, up **1.5 percent**, and Conference Board Consumer Confidence Present Situation SA, up **4.5 percent**. US Employees on Nonfarm Payrolls Total SA also posted a large increase in the file and scored positively. Conference Board Coincident Personal Income Less Transfer Payments was effectively unchanged, rising just **0.05 percent**. Offsetting those gains, US Industrial Production SA declined **0.5 percent**, and US Labor Force Participation Rate SA edged down **0.2 percent**.

The roughly coincident data were somewhat better than the leading group in March, but the picture remains uneven. Current activity measures show some resilience, though the unusually large payroll increase in the workbook may reflect a reporting or data-entry issue and may overstate the apparent strength of the group.

LAGGING INDICATOR (83)

The Lagging Indicator stood at **83**, with five of six components improving and one declining.

Most lagging series moved in a direction associated with continued underlying firmness. US CPI Urban Consumers Less Food and Energy YoY NSA increased **5.6 percent**. US Commercial Paper Placed Top 30 Day Yield rose **1.5 percent**. Conference Board US Lagging Commercial and Industrial Loans advanced **0.7 percent**, and US Manufacturing and Trade Inventories Total SA rose **0.9 percent**. Conference Board US Lagging Avg Duration of Unemployment fell **1.6 percent** and was scored positively because it is inverted. The only declining component was Census Bureau US Private Construction Spending Nonresidential SA, which slipped **0.1 percent**.

Overall, the lagging data continue to depict an economy still carrying momentum from prior conditions. Even so, because lagging indicators tend to confirm rather than anticipate turning points, their relative strength does not fully offset the more divided message coming from the leading and coincident indicators.

DISCUSSION, APRIL— MAY 2026

April's inflation data suggest that the Iran conflict is pushing headline prices higher, but the broader inflation picture remains more contained than the top-line figures imply. Headline CPI rose **0.64 percent** in April following March's **0.87 percent** increase, while headline PCE climbed **0.66 percent** in March, driven largely by gasoline prices, which surged more than **20 percent** amid the conflict. Beneath the surface, however, core inflation remained comparatively restrained: core CPI rose **0.38 percent**, though much of that reflected a temporary jump in rents tied to delayed Bureau of Labor Statistics housing surveys following last fall's government shutdown. Excluding that shelter distortion, core inflation would have been materially softer, while core PCE — the Fed's preferred gauge — slowed to **0.29 percent** as weaker goods inflation offset firmer service categories such as health care and air transportation. Producer prices point to mounting supply chain pressures rather than overheating demand, with headline PPI jumping **1.4 percent** in April as higher fuel, freight, and manufacturing input costs rippled through the economy and firms increasingly moved to protect margins. Still, some PPI components feeding into core PCE, including weaker portfolio management fees tied to March's equity selloff, are likely to restrain near-term inflation readings.

Labor market data continue to point to an economy that is cooling gradually rather than deteriorating outright, with hiring holding up better than expected even as broader measures of labor demand soften beneath the surface. Nonfarm payrolls rose a stronger-than-expected 115,000 in April, above both consensus expectations and estimates of roughly 50,000 jobs needed to stabilize unemployment, though hiring slowed from March's upwardly revised 185,000 pace. Private-sector hiring accounted for the gains, while government payrolls continued to edge lower. Most notably, trade, transportation, and utilities emerged as the largest source of job creation, adding 60,000 jobs and overtaking health care as the dominant contributor to employment growth — a development consistent with recent improvements in freight activity, purchasing managers' surveys, and regional manufacturing data that suggest an emerging recovery in portions of the industrial economy. At the same time, job gains elsewhere were less convincing: manufacturing slipped back into contraction, professional and business services cooled, and information and financial activities shed jobs, likely reflecting a combination of cyclical moderation and structural adjustments tied to automation and artificial intelligence. Wage growth remained subdued at **0.2 percent** in April, helping to contain labor-cost pressures, though a modest increase in the workweek pushed weekly earnings higher and supported household income.

Beneath the stronger headline payroll figures, however, several indicators suggest labor-market conditions continue to soften incrementally. The unemployment rate edged up to **4.34 percent** in April from **4.26 percent**, even as labor-force participation declined, with household-survey employment falling and the number of unemployed rising — a reminder that the pace of job creation required to stabilize unemployment may be materially higher than Federal Reserve assumptions imply. March JOLTS data reinforced the view of slower but still-stable labor demand: job openings declined modestly to 6.87 million, layoffs increased slightly, and the vacancy-to-unemployment ratio remained below pre-pandemic norms, signaling reduced tightness and limited inflationary pressure from labor markets. Yet workers showed somewhat greater confidence than expected, with the quits rate ticking up to **2.0 percent**. Weekly jobless claims likewise continue to portray a labor market marked more by stability than stress. Initial claims remained historically low through May, consistently below year-earlier levels, while continuing claims stayed contained and the insured unemployment rate held steady at **1.2 percent**. Even as AI-driven restructuring increasingly reshapes hiring patterns — particularly in technology and white-collar occupations — layoffs remain concentrated rather than systemic, suggesting employers are adjusting staffing cautiously rather than retrenching broadly. Taken together, the data point to a labor market that remains resilient in the near term but is gradually losing momentum, supporting expectations that the Federal Reserve will remain on hold for now before potentially easing policy later in the year if unemployment continues to drift higher.

Business activity data continue to point to an economy in expansion, though momentum is becoming increasingly uneven as firms contend with rising costs, softer demand in some areas, and cautious hiring. The ISM Services PMI eased modestly to 53.6 in April from 54.0 — still consistent with moderate economic growth — but underlying details softened meaningfully. New orders fell sharply to 53.5 from 60.6, likely reflecting the fading of earlier pull-forward demand ahead of expected price increases, while employment remained in contraction for a second straight month despite an improvement from March. At the same time, price pressures remained intense and broad-based, with the services prices index holding at 70.7 — among the highest readings since 2022 — as firms increasingly cited diesel, gasoline, fuel surcharges, and tariff-sensitive materials as sources of cost pressure. Manufacturing also remained in expansion territory, with the ISM Manufacturing PMI unchanged at 52.7, though the composition of activity was less encouraging. New orders improved modestly, but export demand weakened, production failed to accelerate materially, and factory employment slipped further into contraction. Supplier deliveries slowed, likely reflecting Iran-war-related disruptions and tighter logistics conditions, while the manufacturing prices-paid index surged to 84.6 — its highest level in four years — underscoring mounting pipeline inflation. Taken together, the April ISM reports suggest growth continues but is increasingly constrained by rising input costs, softer demand, and more selective hiring, reinforcing expectations that the Federal Reserve will remain on hold in the near term.

Against a backdrop of still-expanding but increasingly cost-constrained business activity, sentiment data point to growing caution among both firms and households. Small-business optimism remained subdued in April, with the NFIB Small Business Optimism Index edging up only marginally to 95.9 as elevated uncertainty and weakening sales expectations offset modest improvements in profitability and hiring plans. The share of owners expecting stronger real sales over the next quarter fell to its lowest level in a year, underscoring concern that rising prices — particularly for fuel and other inputs — may increasingly weigh on customer demand, while modest improvements in profits appear to be giving some firms room to absorb higher costs through margin compression rather than fully passing them through to consumers. Capital spending and hiring intentions improved slightly but remained historically subdued, reflecting caution around future demand even as labor quality continues to rank among firms' most persistent challenges. Consumers, meanwhile, grew notably more pessimistic in May, with the University of Michigan sentiment index falling to a record low of 44.8 as elevated gasoline prices and uncertainty surrounding the Iran conflict intensified concerns about the cost of living. Inflation expectations moved sharply higher, with households expecting prices to rise **4.8 percent** over the next year and **3.9 percent** annually over the next five to ten years, suggesting growing concern that inflation pressures may spread beyond fuel. Measures of current conditions, future expectations, and household finances all deteriorated to record or near-record lows, even as labor-market expectations remained comparatively resilient — helping explain why spending has thus far held up better than confidence. Taken together, the data suggest an economy in which sentiment is weakening faster than underlying activity, with both businesses and households becoming increasingly cautious even as growth continues to hold up in the near term.

Consumer spending data, meanwhile, suggest that households continue to absorb higher costs without materially retrenching, though the composition of spending increasingly reflects pressure from elevated fuel and food prices. Nominal retail sales rose **0.5 percent** in April, but with more than **40 percent** of the increase driven by higher gasoline expenditures, while retail sales excluding gas rose a more modest **0.3 percent**. Even so, underlying demand remained firmer than anticipated: control-group retail sales — a key GDP input — increased a solid **0.5 percent**, while restaurants, grocery stores, and online retailers led gains, suggesting consumers continue to spend despite rising cost pressures. Elevated tax refunds and household wealth effects appear to be cushioning activity for now, helping prevent a more meaningful pullback in discretionary spending. Big-ticket purchases, however, show clearer signs of moderation. Light vehicle sales cooled to a 15.92 million annualized pace in April, reflecting affordability pressures from higher gasoline costs, though sales remained above the first-quarter average and growing interest in fuel-efficient and electric vehicles points to some underlying resilience. Housing activity also remained subdued, with existing home sales rising only marginally as elevated mortgage rates, stretched affordability, and rising inventories weighed on demand, while home price appreciation slowed to just **0.9 percent** year over year. Consumer spending looks likely to remain resilient in the near term, though higher energy costs are increasingly reshaping spending patterns and weighing on interest-sensitive purchases.

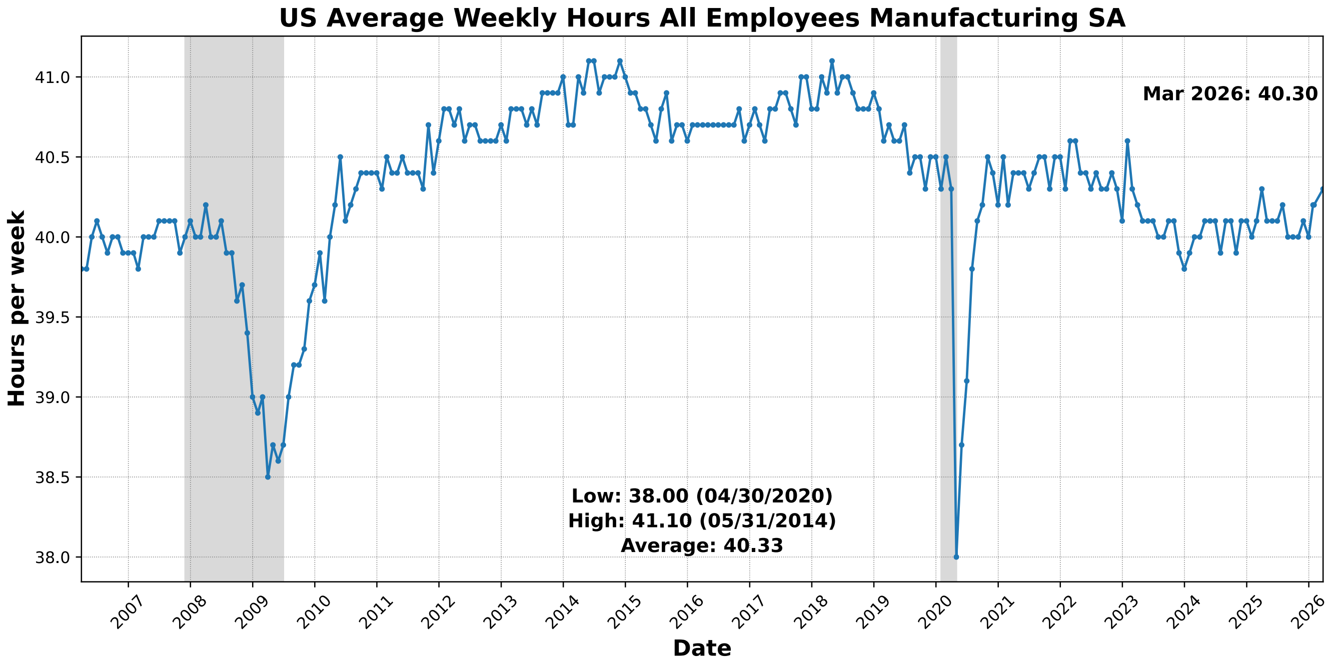
Even as consumer confidence weakens and spending patterns become more selective, business investment and production data suggest firms entered the second quarter on firmer footing than sentiment alone would imply. Industrial production rose a stronger-than-expected **0.7 percent** in April following a revised March decline, driven primarily by durable goods output, with motor vehicle production surging **5.3 percent** and accounting for roughly one-third of the headline gain. Manufacturing output increased **0.6 percent**, business equipment production rose **1.5 percent**, and stronger activity in transportation equipment, metals, minerals, agricultural equipment, and electronics pointed to relatively healthy capital spending and industrial demand despite higher energy costs and elevated uncertainty. Softer output in consumer goods excluding autos and energy, alongside declines in mining activity and oil-and-gas drilling, suggests more price-sensitive sectors remain cautious. Productivity data reinforce the picture of a business sector continuing to adapt rather than retrench: nonfarm productivity rose at a **0.8 percent** annualized pace in the first quarter, lifting year-over-year growth to **2.9 percent** — the strongest reading in two years and consistent with the possibility that technology investment and early AI adoption are beginning to appear in aggregate data. Output growth continued to outpace hours worked, while unit labor costs rose just **2.3 percent** annualized, sharply below the prior quarter and easing to **1.2 percent** year over year, reinforcing evidence that labor markets are not generating broad inflationary pressure. US firms appear willing to invest and expand production selectively, while stronger productivity growth is helping offset labor costs and cushion the economy against rising input prices and softer consumer sentiment.

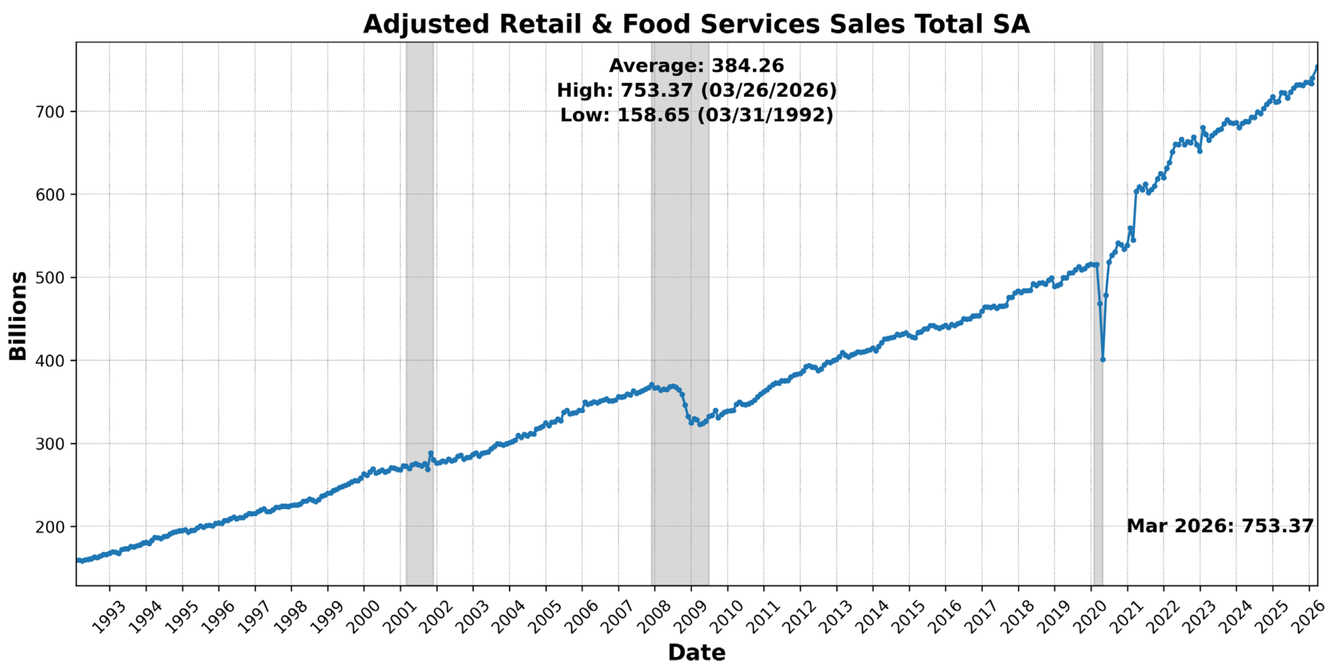
The broader policy and financial backdrop points to an economy that continues to expand but faces growing constraints from tighter monetary conditions, elevated inflation risks, and mounting fiscal concerns. Credit availability remains broadly supportive, with the Federal Reserve's latest Senior Loan Officer Opinion Survey showing only modest tightening in business lending standards, largely stable consumer credit conditions, and some easing in commercial real estate lending terms. Demand for credit, however, has softened in several consumer categories, suggesting borrowing appetite, rather than supply, may increasingly limit activity. The Federal Reserve has recently shifted further in a hawkish direction. Minutes from the April FOMC meeting showed diminishing support for eventual rate cuts, growing discomfort with maintaining an easing bias, and a majority of policymakers indicating further tightening could become appropriate if inflation remains persistently above target. By mid-May 2026, market implied policy rates showed rate market participants placing a **60 percent** chance on a one-quarter increase in the Fed Funds rate by December 2026. Energy-related inflation from the Iran conflict, tariffs, supply disruptions, and resilient labor-market conditions have reinforced the Fed's caution, leaving policymakers in no hurry to ease.

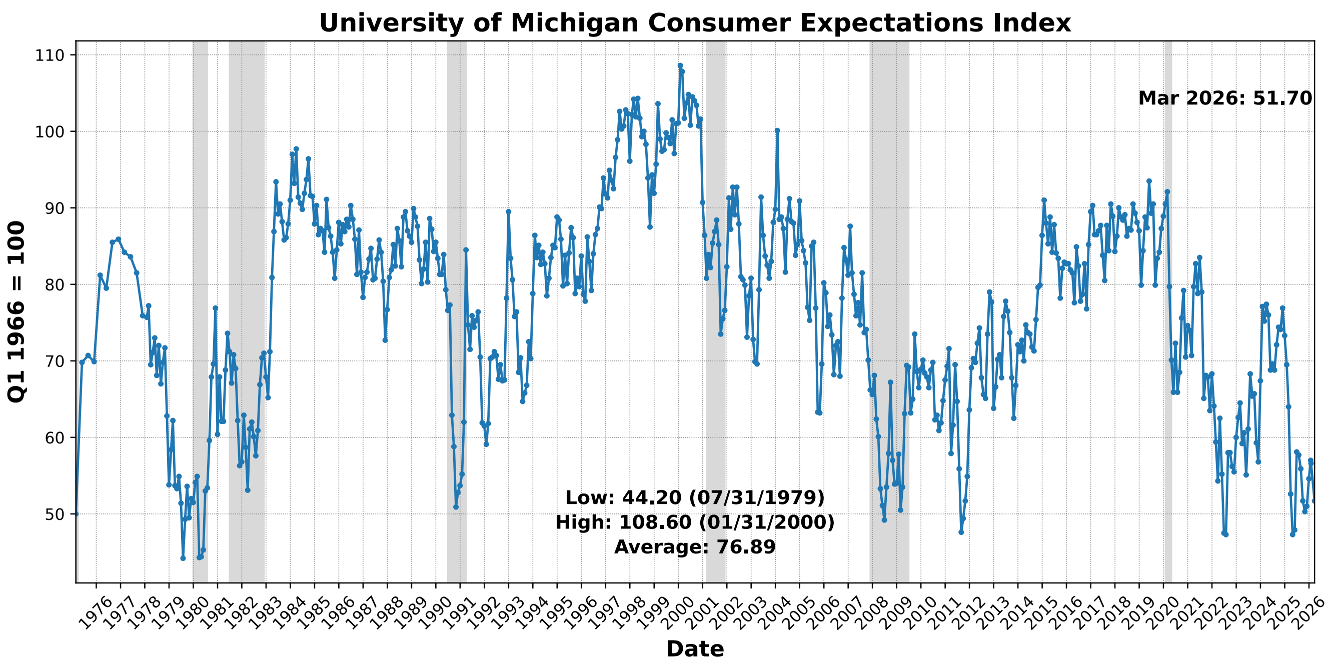
Financial markets have increasingly aligned with this higher-for-longer outlook, though concerns now extend beyond inflation alone. Treasury yields surged in May, with the 30-year yield briefly exceeding **5.2 percent** — its highest level since 2007 — as investors reassessed both inflation persistence and the sustainability of US fiscal dynamics. Mounting deficits, rising debt-service costs, and heavier Treasury issuance are increasingly pushing investors to demand greater compensation for holding long-term debt, particularly as higher rates themselves threaten to worsen fiscal pressures. The unusual leadership of the long end of the curve in the recent selloff suggests markets are increasingly pricing fiscal risk alongside monetary restraint. Taken together, the policy outlook points to a Federal Reserve likely to remain on hold for an extended period, balancing elevated inflation risks against the possibility that tighter financial conditions and rising borrowing costs eventually weigh more heavily on growth.

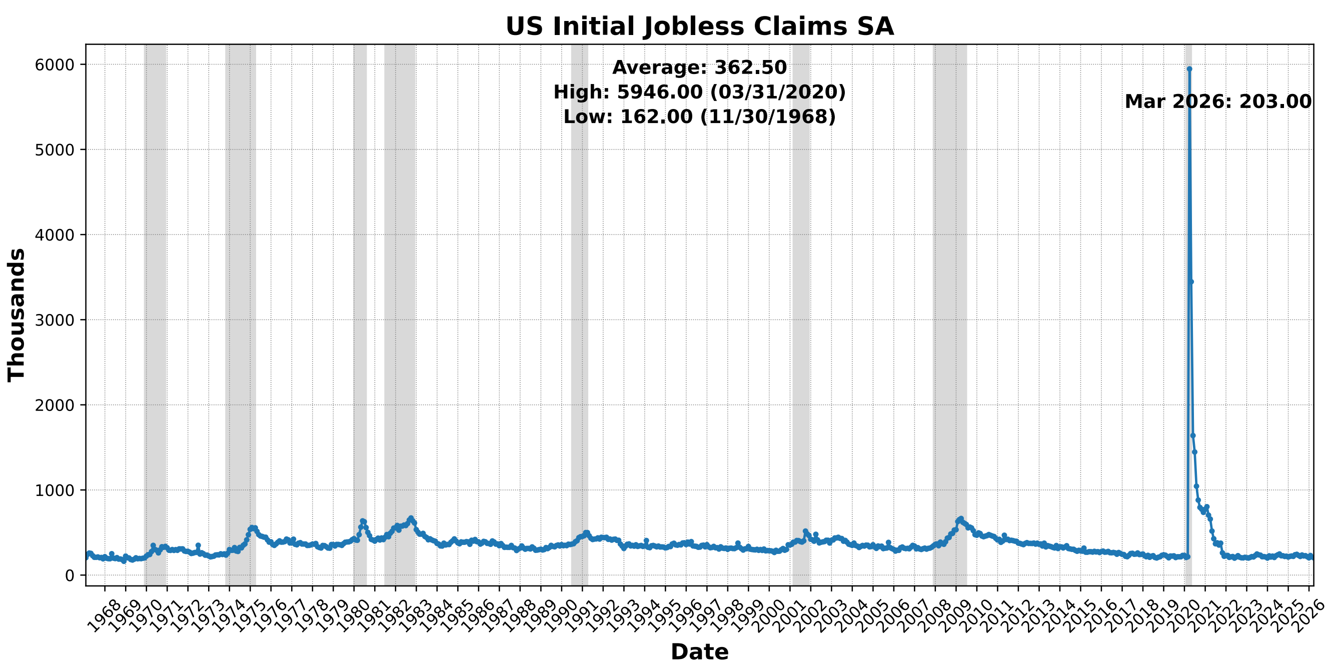
In May 2026, the US economy confronts a difficult but not wholly unfavorable balancing act: robust enough to continue expanding, yet increasingly pressured by higher energy costs, tighter financial conditions, and record levels of policy uncertainty. Headline inflation has been pushed higher by the Iran conflict and energy prices, yet underlying inflation pressures remain more contained than surface-level readings admit; labor markets, consumer spending, and business activity continue to expand despite growing indications of moderation. Households and firms appear to be absorbing higher costs for now — supported by accumulated wealth, stable credit availability, productivity gains, and selective business investment — though confidence has deteriorated notably, and more interest-sensitive sectors such as housing, autos, and portions of discretionary spending are beginning to soften. At the same time, rising long-term Treasury yields, mounting fiscal concerns, and increasingly cautious Federal Reserve rhetoric suggest financial conditions may become a more meaningful headwind in coming quarters, particularly if elevated energy prices persist or inflation broadens beyond fuel and supply-chain-related categories.The near-term growth path remains one of slower but continued expansion rather than outright contraction, with the US economy appearing more vulnerable to policy missteps or external shocks than to an immediate cyclical downturn.

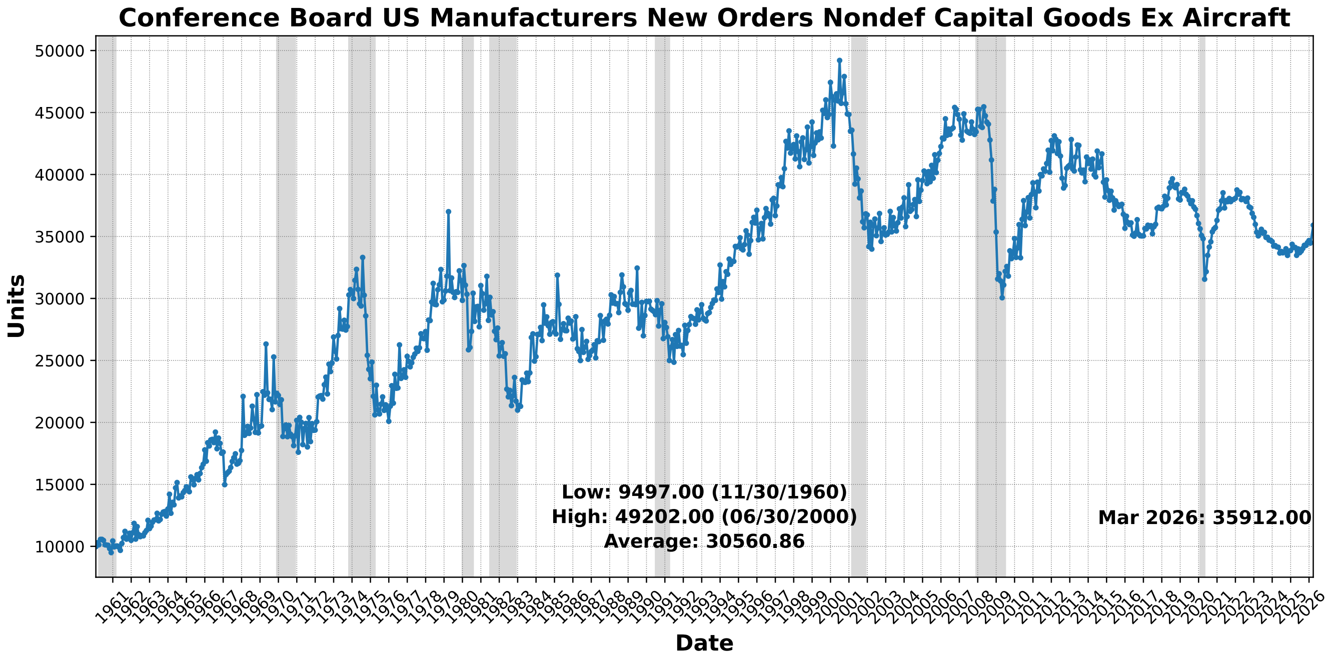
LEADING INDICATORS

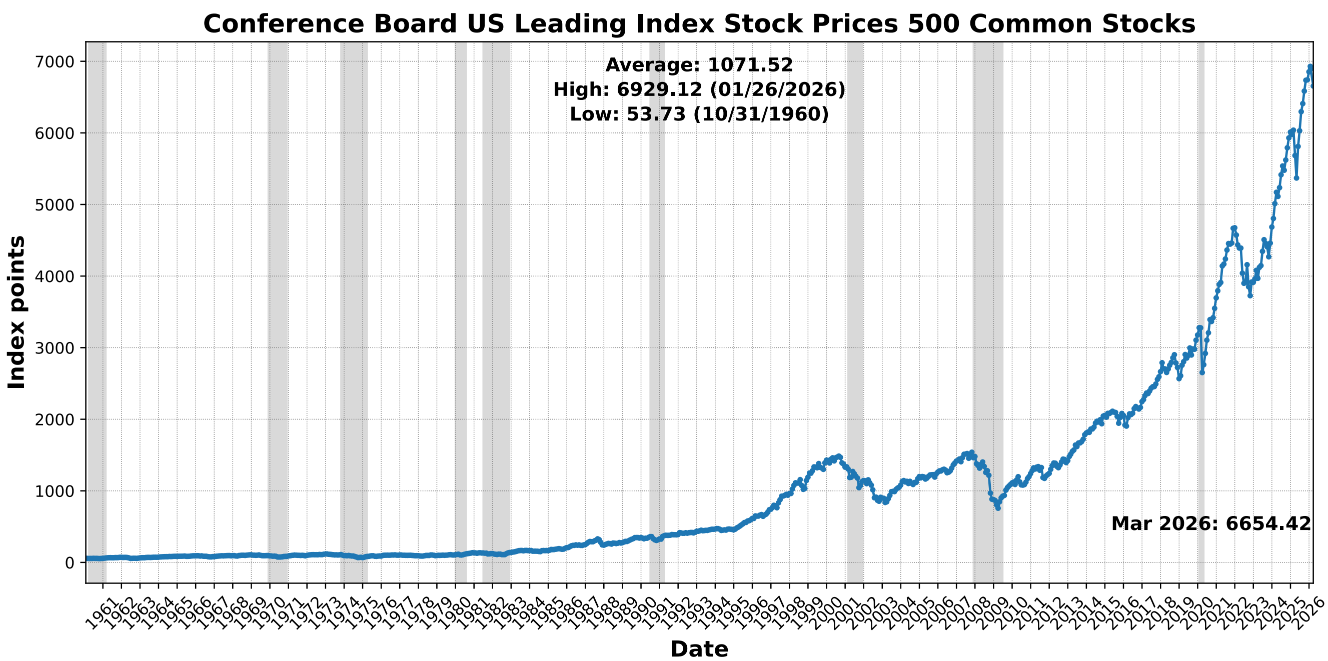


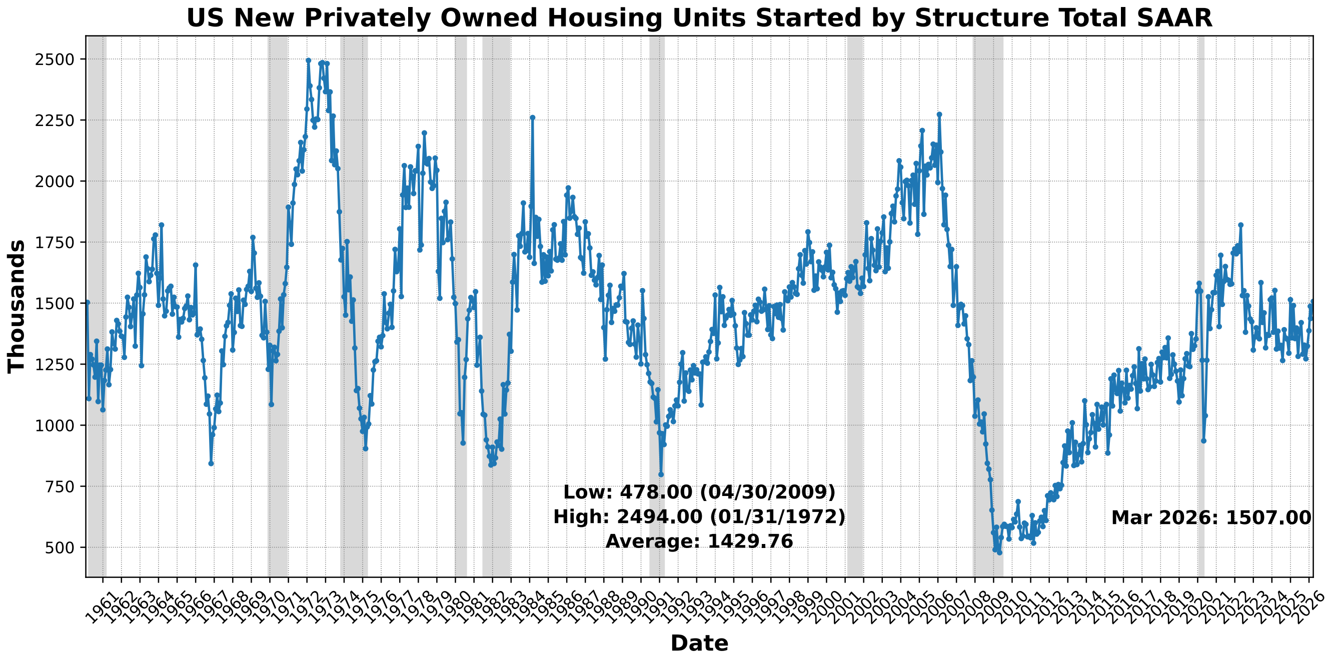


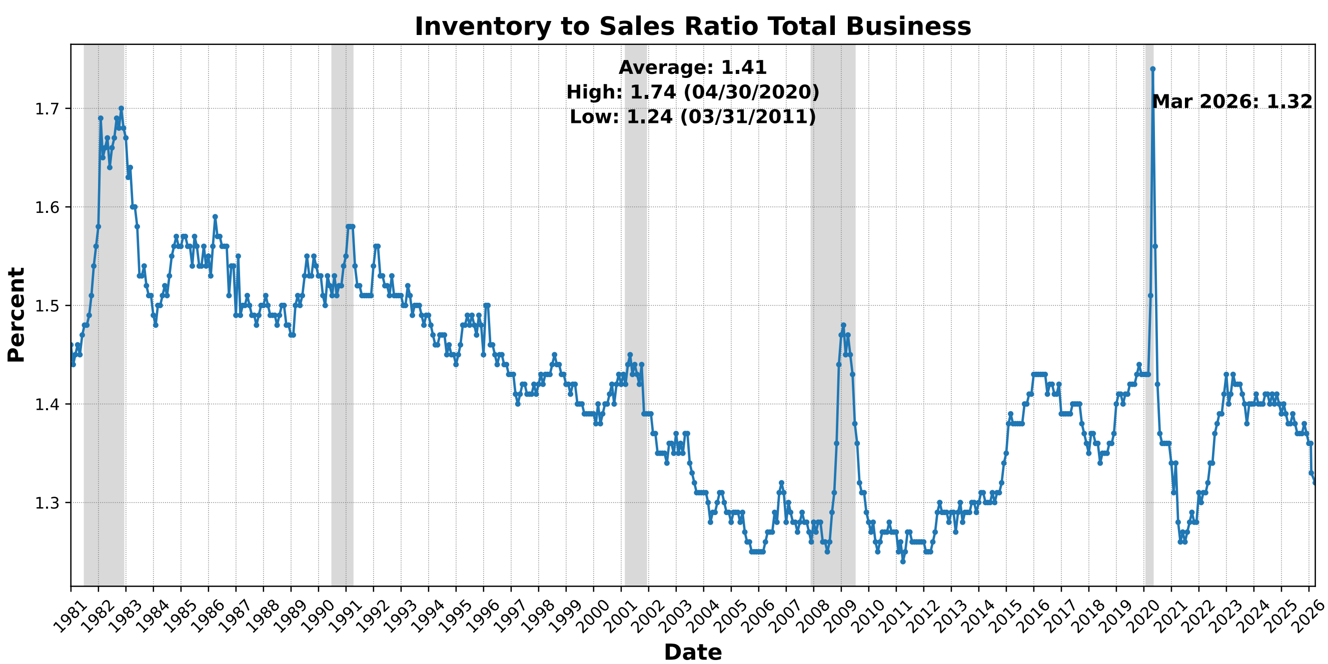

University of Michigan Consumer Expectations Index
Q1 1966 = 100
Mar 2026: 51.70
Low: 44.20 (07/31/1979)
High: 108.60 (01/31/2000)
Average: 76.89
Date

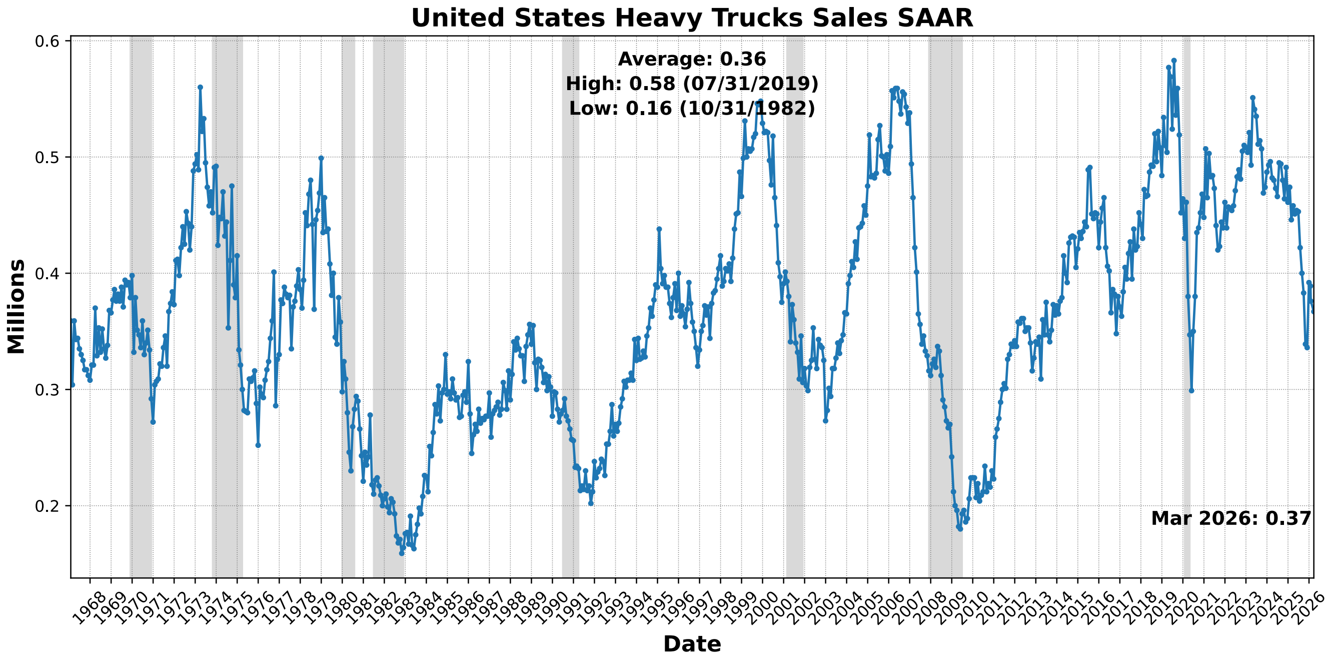

US Initial Jobless Claims SA
Thousands
Average: 362.50
High: 5946.00 (03/31/2020)
Low: 162.00 (11/30/1968)
Mar 2026: 203.00
Date

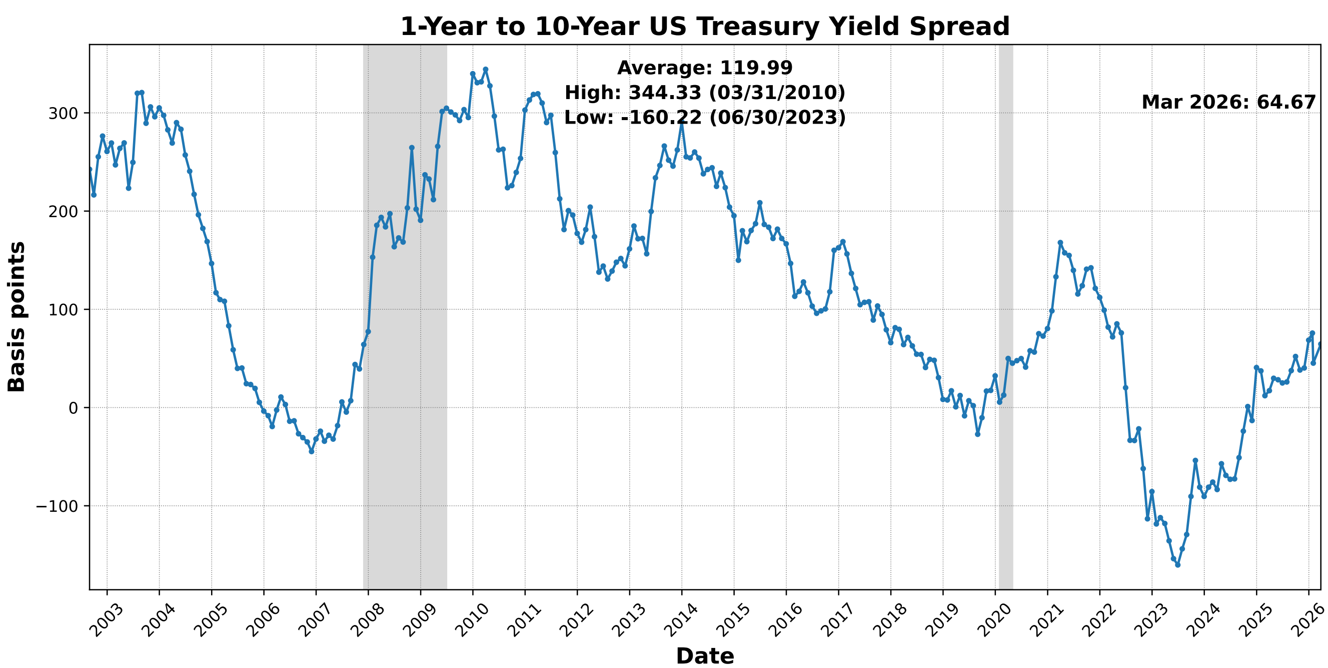

Conference Board US Manufacturers New Orders Nondef Capital Goods Ex Aircraft
Units
Date
Low: 9497.00 (11/30/1960)
High: 49202.00 (06/30/2000)
Average: 30560.86
Mar 2026: 35912.00

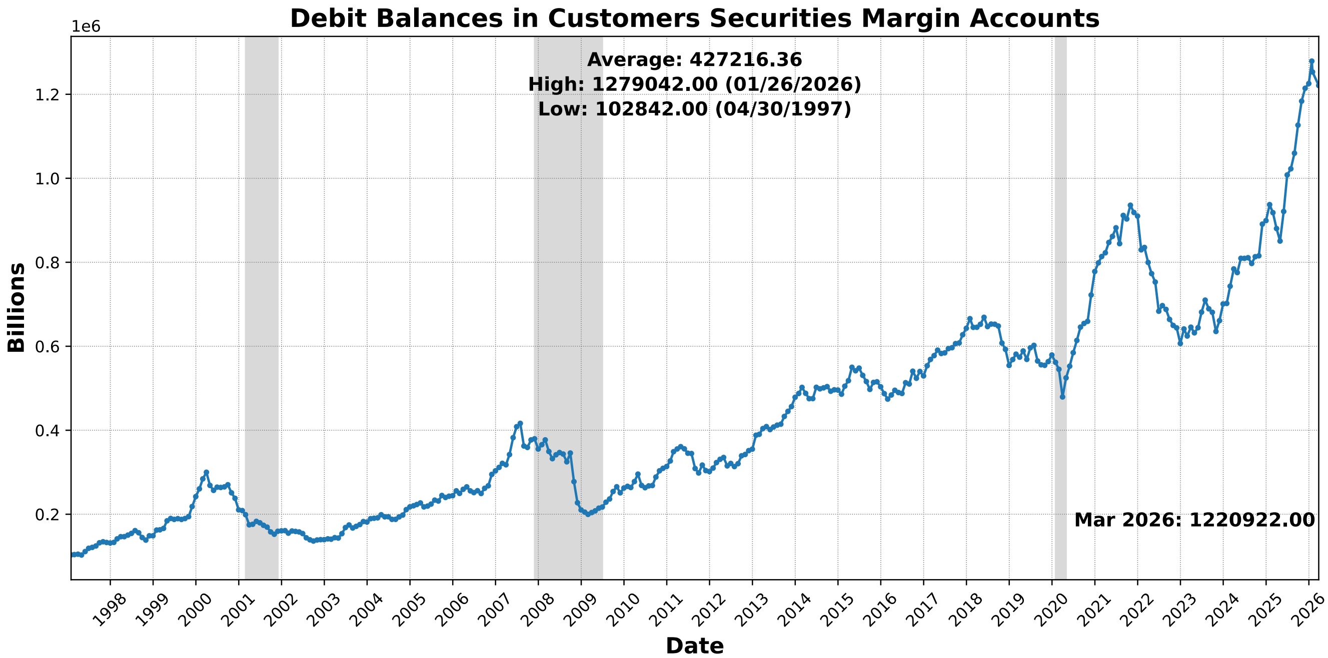

Conference Board US Leading Index Stock Prices 500 Common Stocks
Index points
Date
Average: 1071.52
High: 6929.12 (01/26/2026)
Low: 53.73 (10/31/1960)
Mar 2026: 6654.42


US New Privately Owned Housing Units Started by Structure Total SAAR
Thousands
Date
Low: 478.00 (04/30/2009)
High: 2494.00 (01/31/1972)
Average: 1429.76
Mar 2026: 1507.00

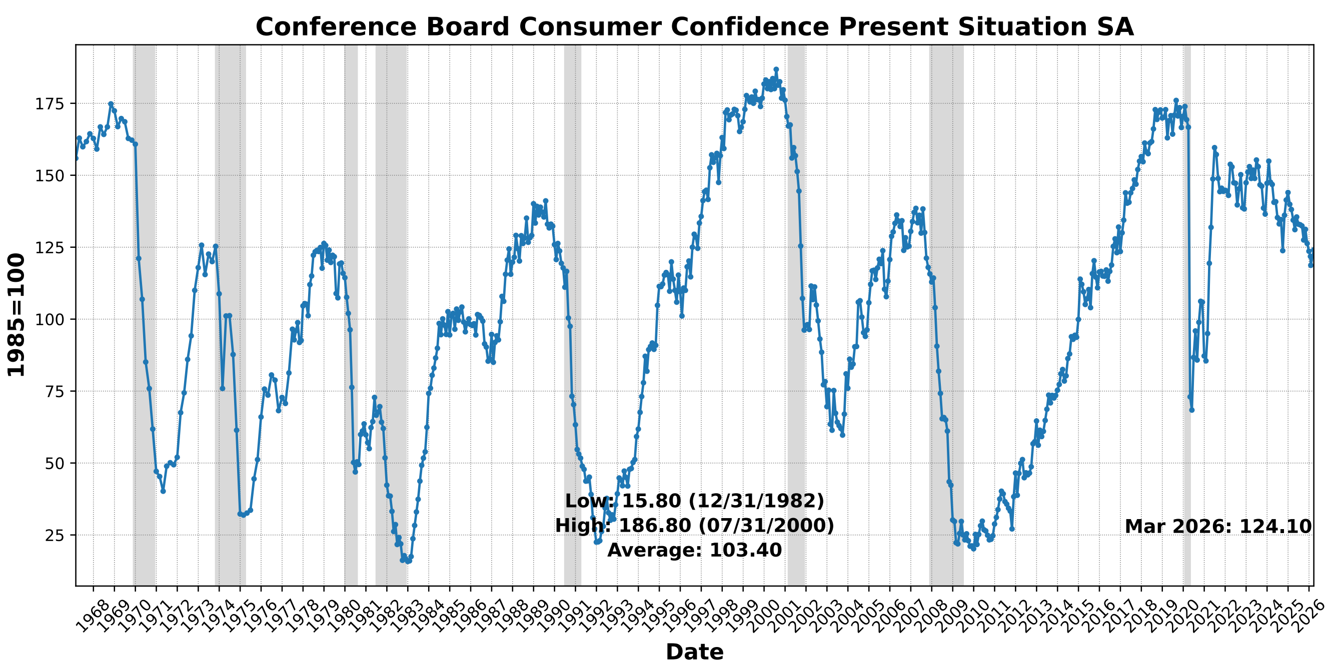

Inventory to Sales Ratio Total Business
Percent
Date
Average: 1.41
High: 1.74 (04/30/2020)
Low: 1.24 (03/31/2011)
Mar 2026: 1.32


United States Heavy Trucks Sales SAAR
Average: 0.36
High: 0.58 (07/31/2019)
Low: 0.16 (10/31/1982)
Mar 2026: 0.37
Millions
Date


1-Year to 10-Year US Treasury Yield Spread
Average: 119.99
High: 344.33 (03/31/2010)
Low: -160.22 (06/30/2023)
Mar 2026: 64.67
Basis points
Date

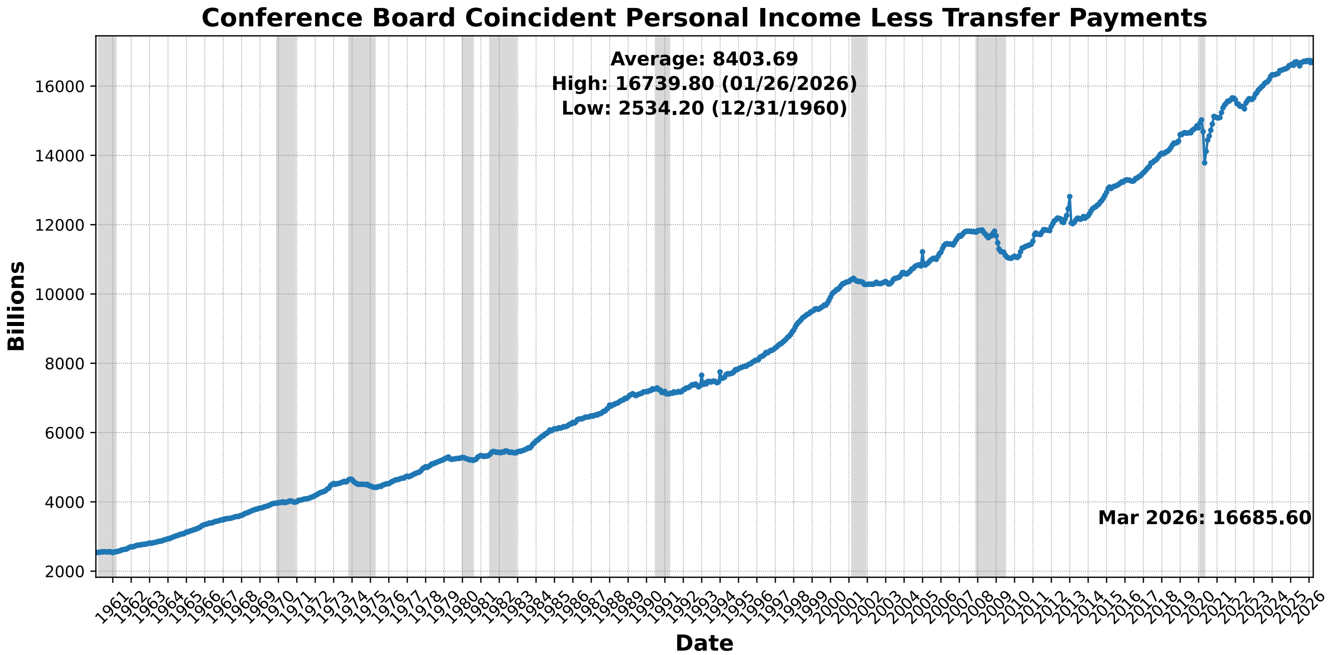


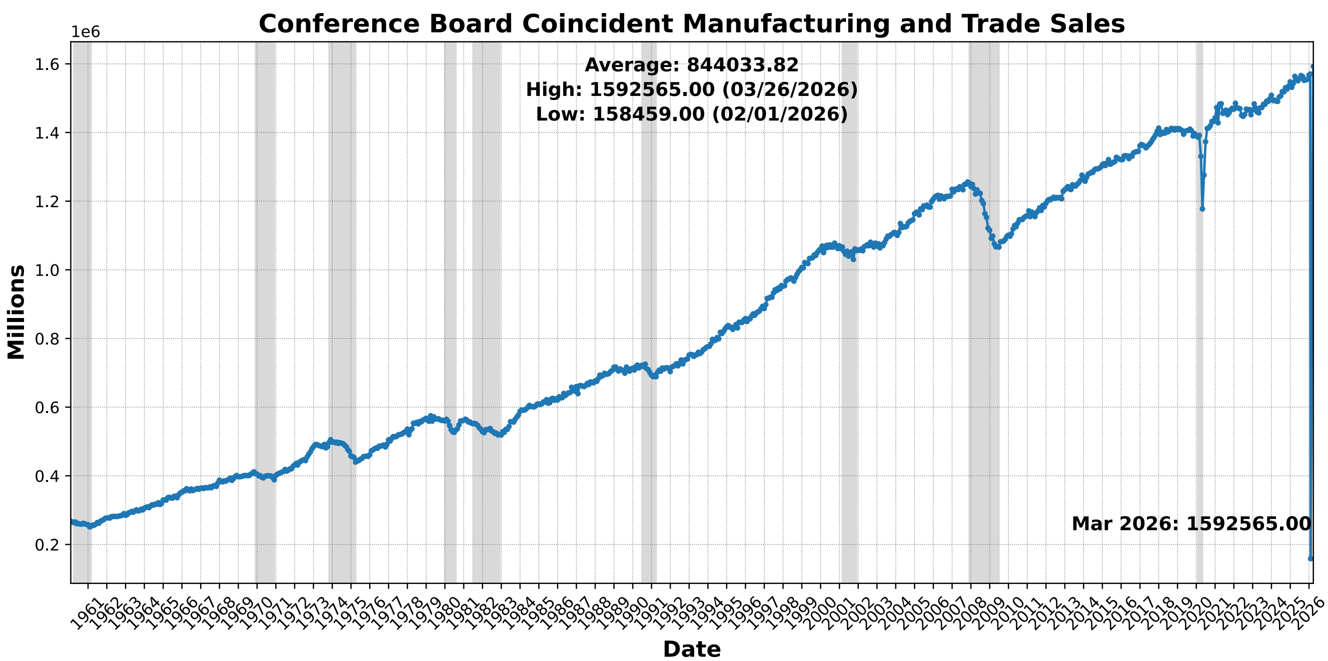
Debit Balances in Customers Securities Margin Accounts
1e6
Average: 427216.36
High: 1279042.00 (01/26/2026)
Low: 102842.00 (04/30/1997)
Mar 2026: 1220922.00
Billions
Date

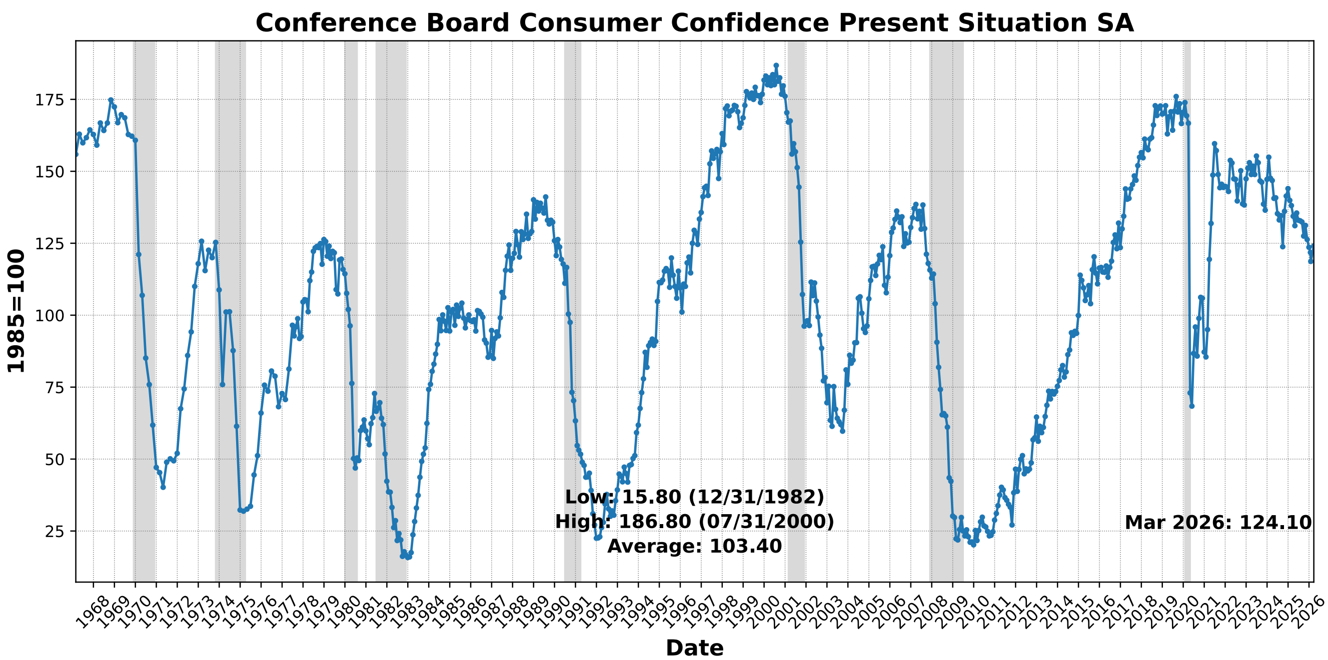


Conference Board Consumer Confidence Present Situation SA
Low: 15.80 (12/31/1982)
High: 186.80 (07/31/2000)
Average: 103.40
Mar 2026: 124.10
1985=100
Date

ROUGHLY COINCIDENT INDICATORS






Conference Board Consumer Confidence Present Situation SA
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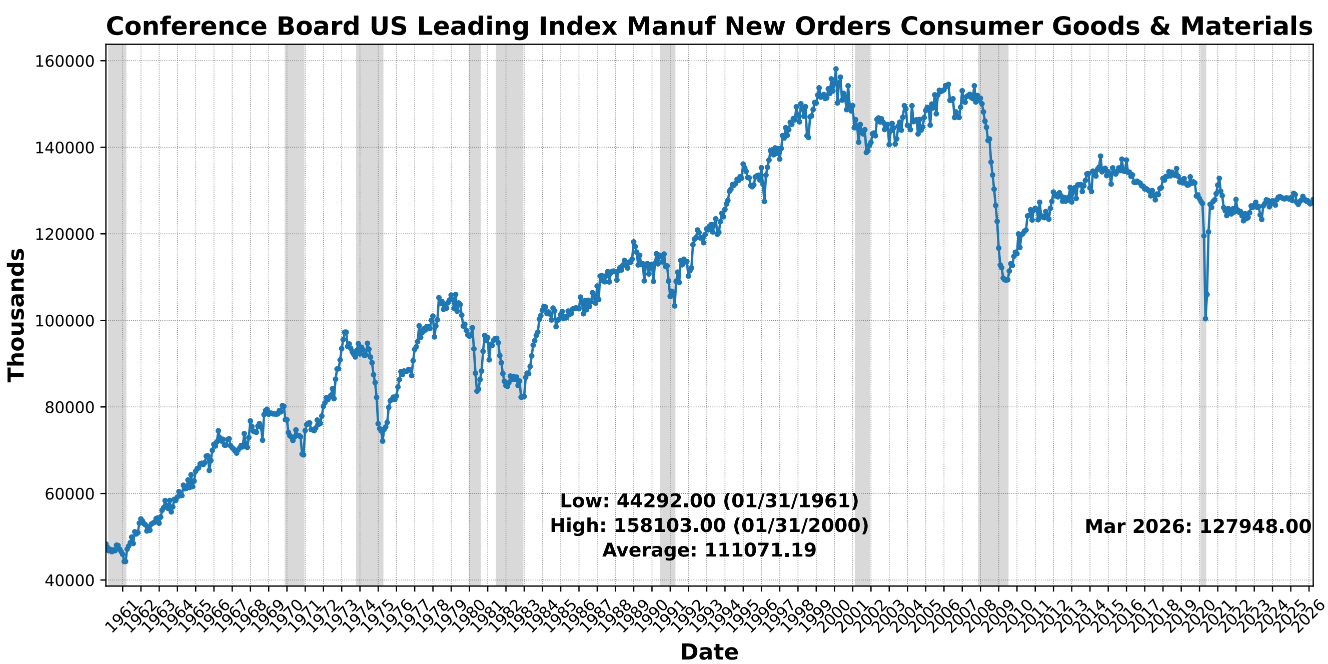
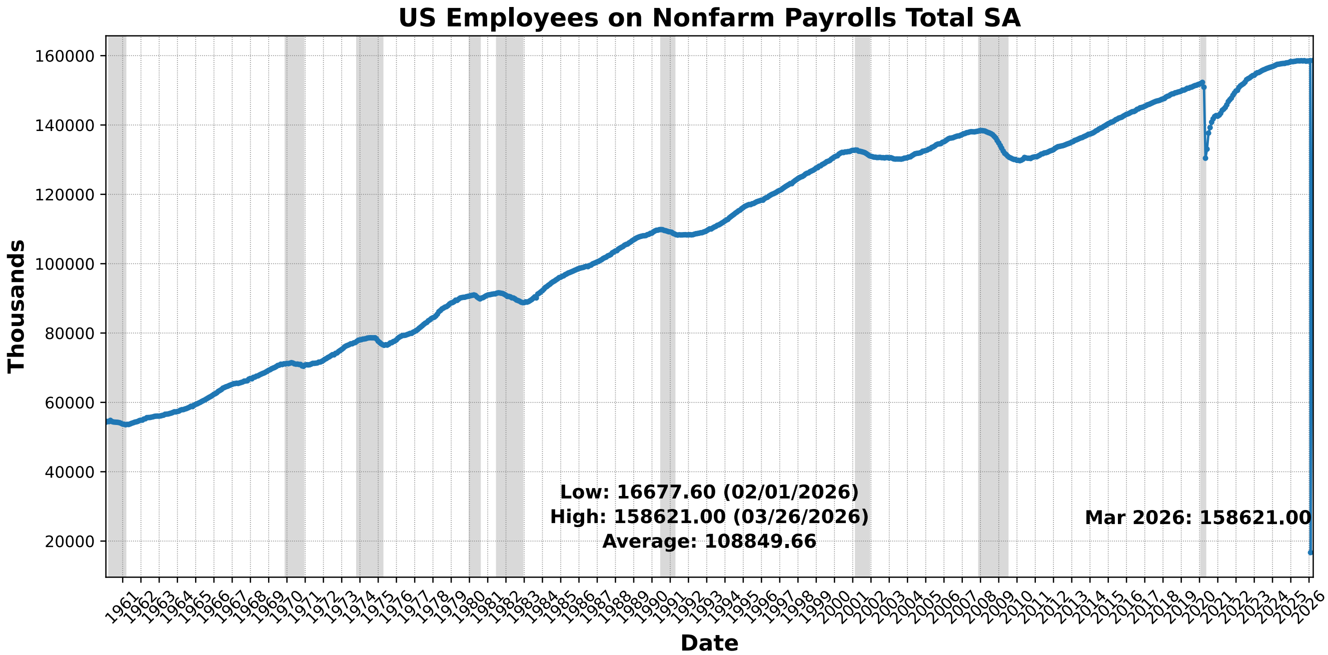
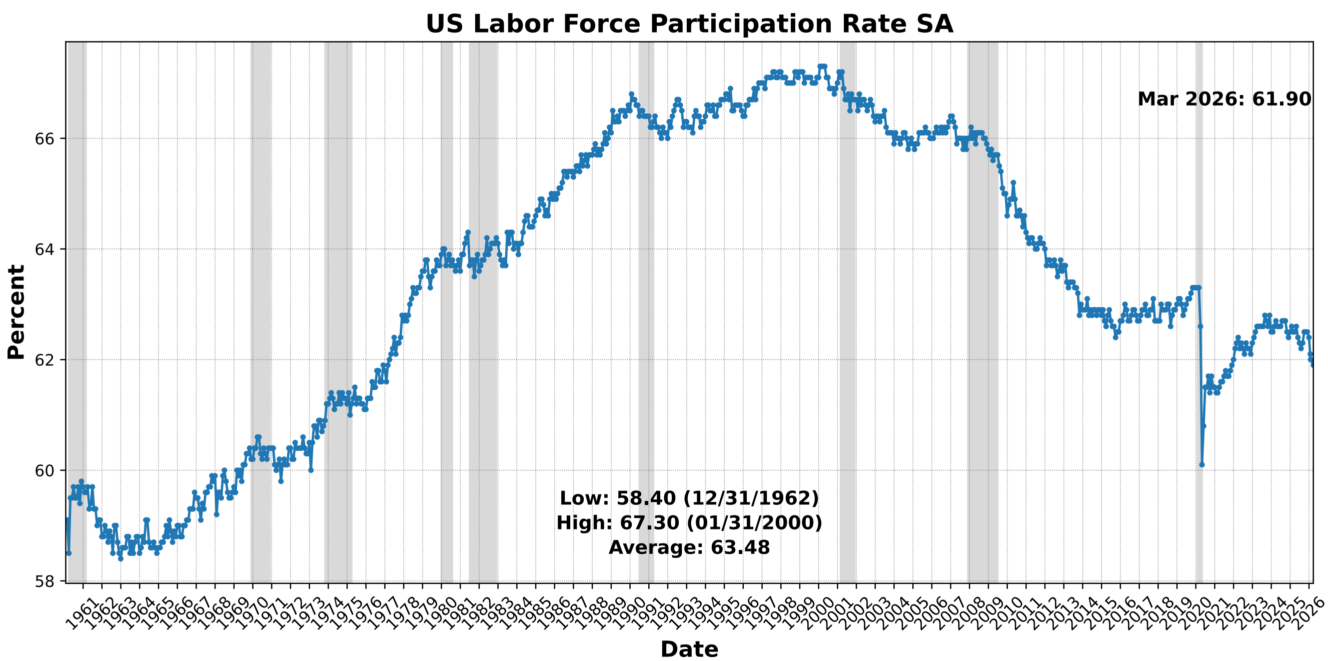
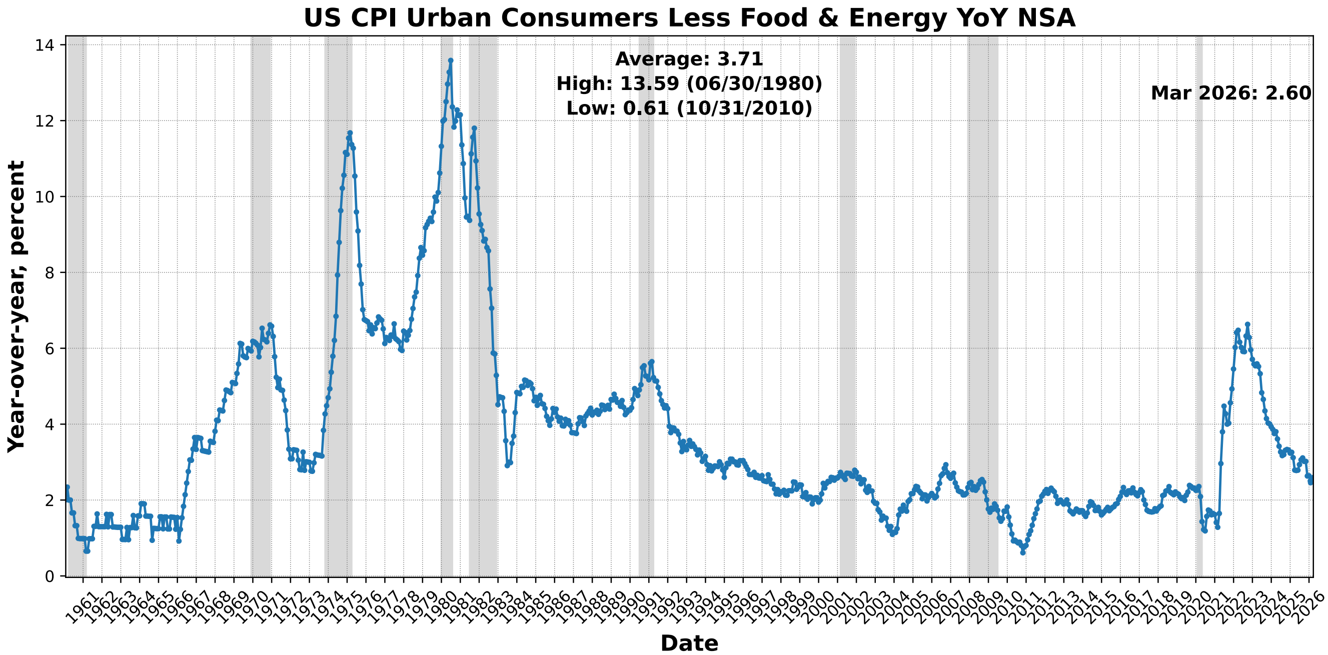
Average: 103.40
Mar 2026: 124.10
Date

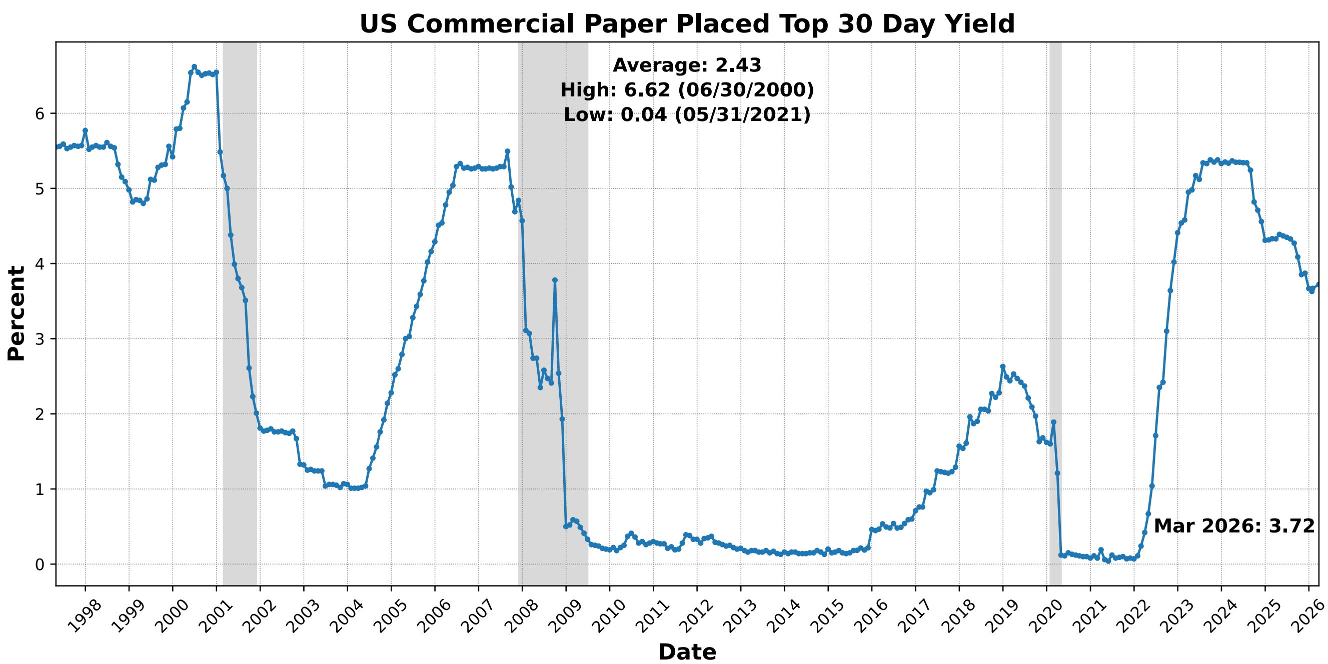

Conference Board US Leading Index Manuf New Orders Consumer Goods & Materials
Thousands
Low: 44292.00 (01/31/1961)
High: 158103.00 (01/31/2000)
Average: 111071.19
Mar 2026: 127948.00
Date

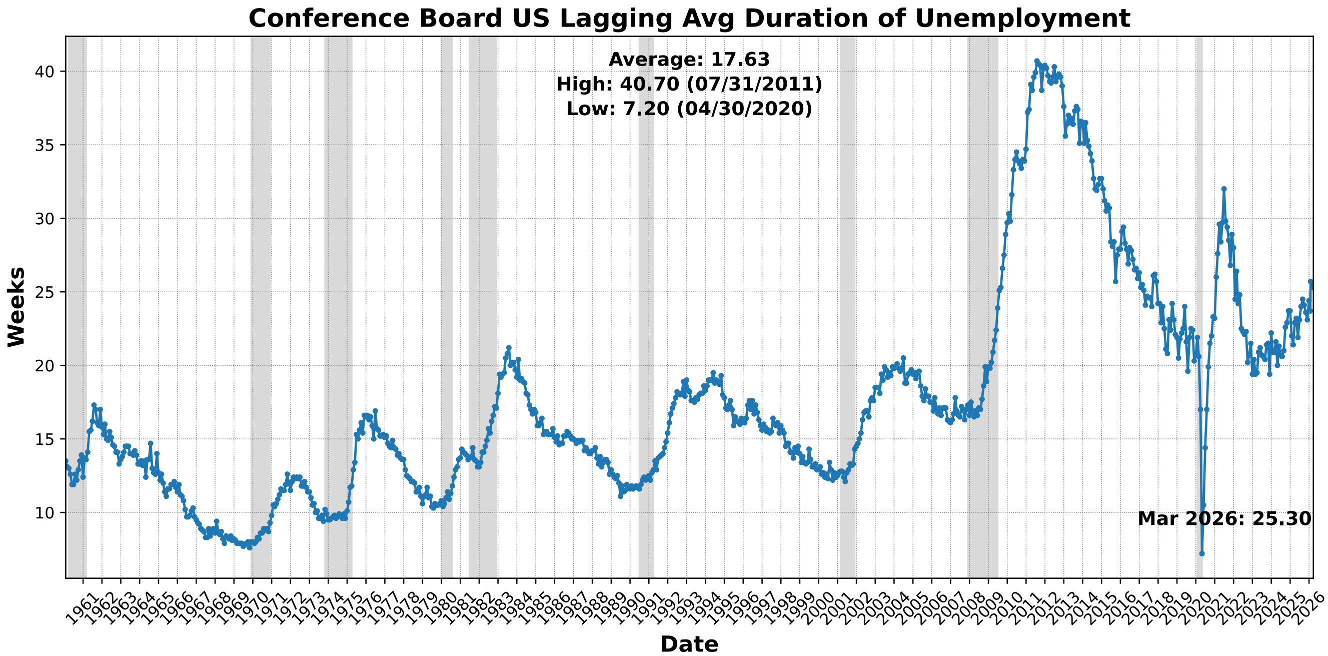

US Employees on Nonfarm Payrolls Total SA
Thousands
Date
Low: 16677.60 (02/01/2026)
High: 158621.00 (03/26/2026)
Average: 108849.66
Mar 2026: 158621.00

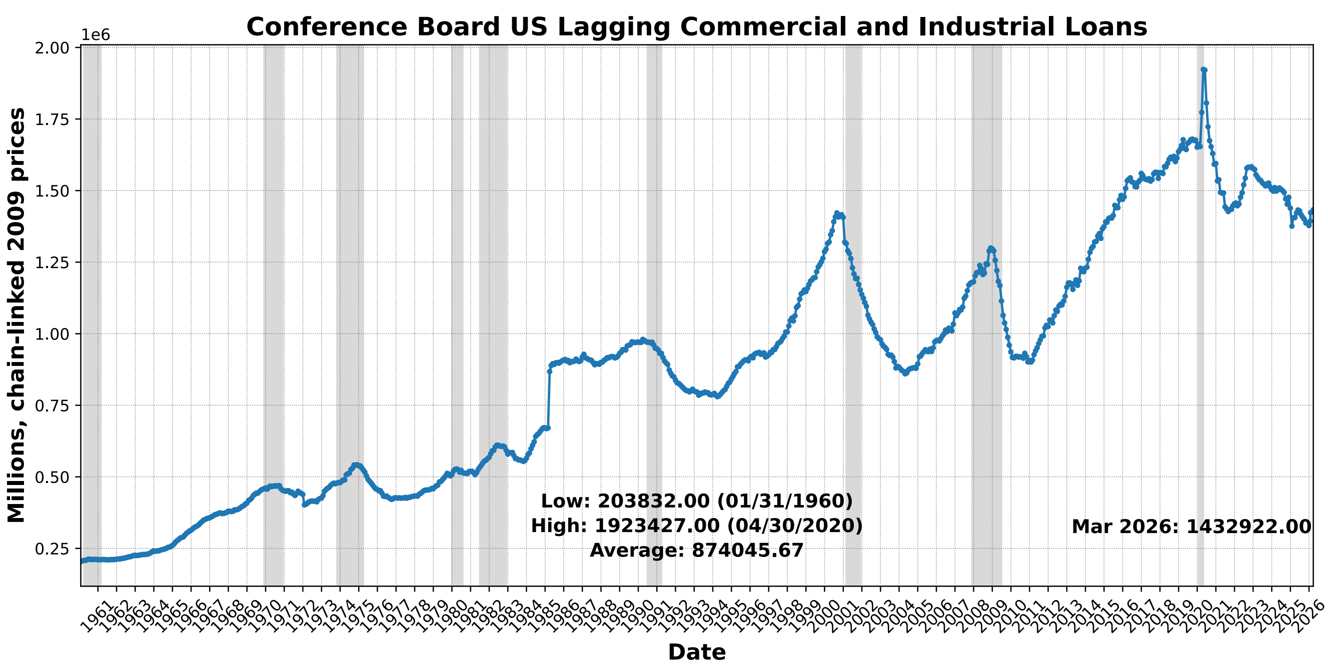

US Labor Force Participation Rate SA
Percent
Date
Mar 2026: 61.90
Low: 58.40 (12/31/1962)
High: 67.30 (01/31/2000)
Average: 63.48

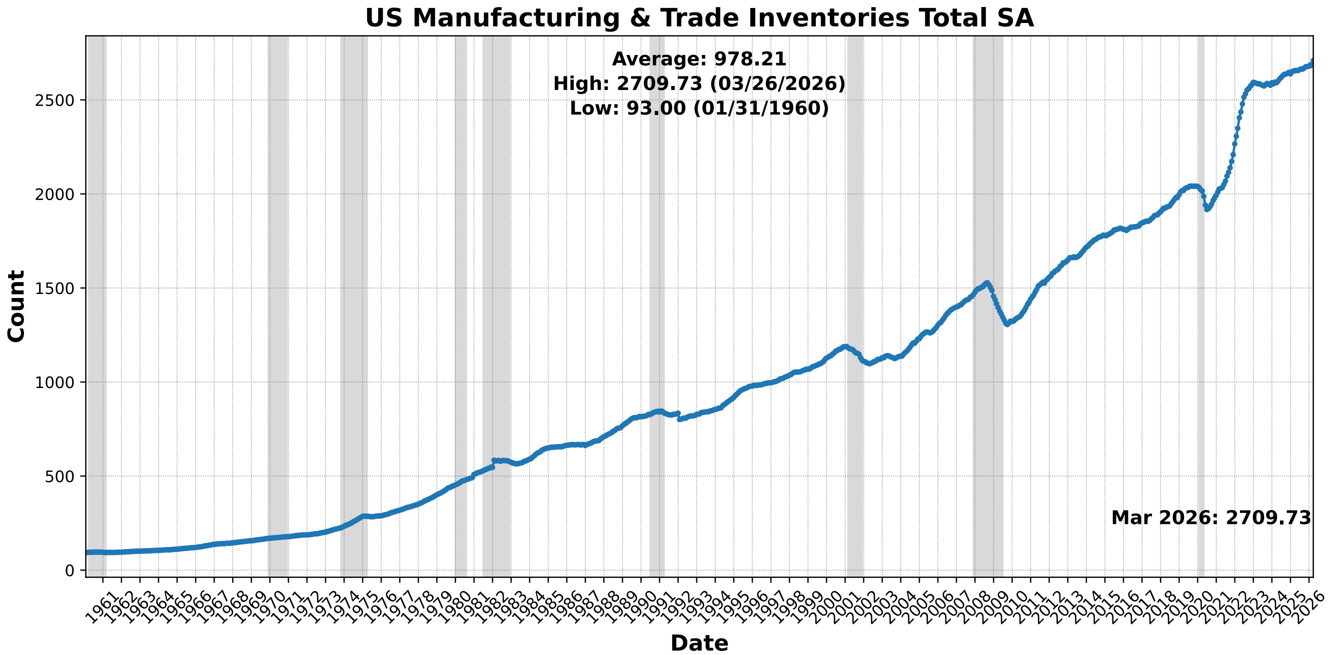
LAGGING INDICATORS

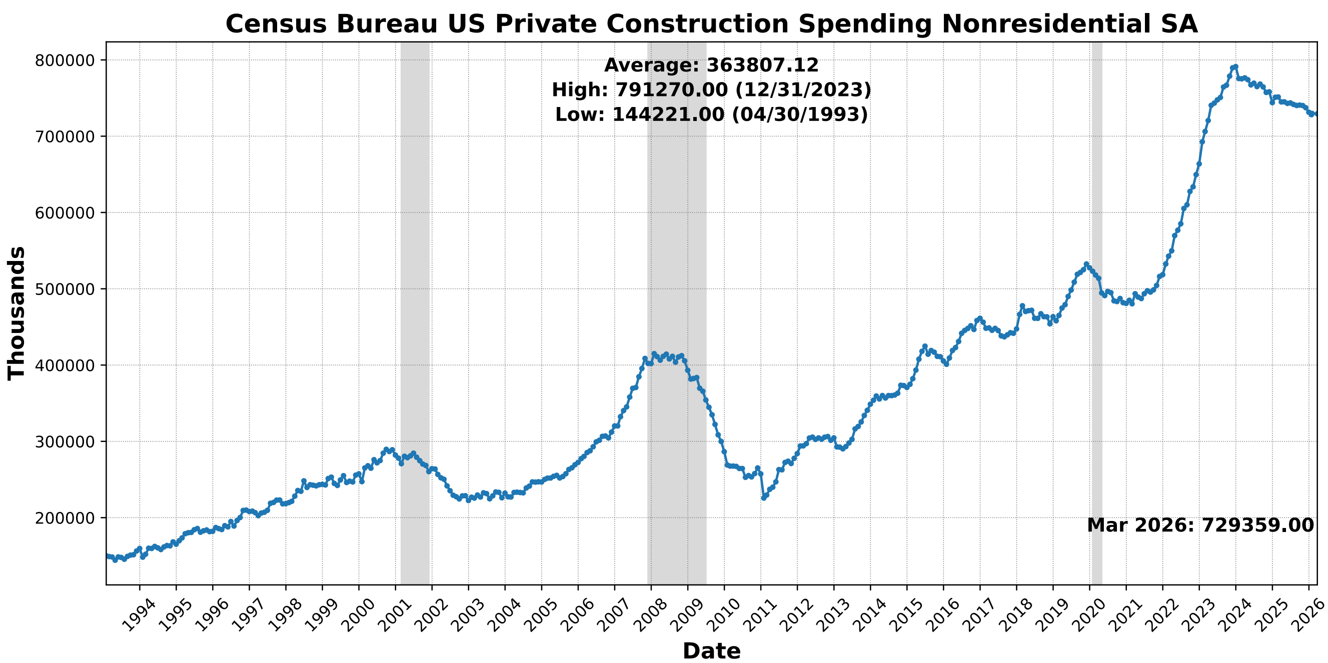





Conference Board US Lagging Avg Duration of Unemployment
Average: 17.63
High: 40.70 (07/31/2011)
Low: 7.20 (04/30/2020)
Mar 2026: 25.30
Weeks
Date


Conference Board US Lagging Commercial and Industrial Loans
1e6
Millions, chain-linked 2009 prices
Low: 203832.00 (01/31/1960)
High: 1923427.00 (04/30/2020)
Average: 874045.67
Mar 2026: 1432922.00
Date


US Manufacturing & Trade Inventories Total SA
Average: 978.21
High: 2709.73 (03/26/2026)
Low: 93.00 (01/31/1960)
Mar 2026: 2709.73
Count
Date


Census Bureau US Private Construction Spending Nonresidential SA
Average: 363807.12
High: 791270.00 (12/31/2023)
Low: 144221.00 (04/30/1993)
Mar 2026: 729359.00
Thousands
Date

Capital Market Performance

Ticker		Short Name	%1M	%3M	%1YR	3 Year Annualized Total	5 Year Annualized Total	10 Year Annualized Total
SPR		S&P 1500 Composite Index	+4.04%	+7.74%	+28.59%	22.2872	13.5144	14.8825
SPXT	d	S&P 500 Total Return	+4.41%	+8.48%	+30.37%	22.8887	14.0765	15.2463
SPX	d	S&P 500 INDEX	+4.30%	+8.17%	+28.79%	22.8628	14.0539	15.2295
MID	d	S&P 400 MIDCAP INDEX	+.88%	+1.91%	+23.37%	15.8883	8.0308	11.2498
RTY	d	RUSSELL 2000 INDEX	+2.95%	+7.17%	+40.66%	18.5490	6.7393	10.9569
SXXP	d	STXE 600 (EUR) Pr	+2.37%	-1.32%	+14.67%	13.7780	10.7064	9.5901
TLT US	d	ISHARES 20+YR TR	-2.34%	-5.81%	+.15%	-1.6865	-6.1936	-1.3656
QLTA US	d	ISHARES AAA - A	-1.12%	-2.69%	+1.12%	4.5519	.1330	2.0147
CRY	d	TR/CC CRB ER Index	+3.59%	+26.66%	+32.36%	14.4858	14.3293	7.8994
XAU		Gold Spot $/Oz	-4.86%	-13.74%	+36.88%			
XAG		Silver Spot $/Oz	-2.79%	-14.35%	+128.53%			
ILM3NAVG		Bankrate 30Y Mortgage Rates Na	+.16%	+4.53%	-6.65%			
ILM1NAVG		Bankrate 15Y Mortgage Rates Na	--	+3.91%	-4.58%			
MB301ARM		5 Year ARM	+2.31%	+8.88%	-6.49%			
ILA3NAVG		Bankrate 30Y Fixe Mtg Refis Na	+.14%	-.14%	-3.61%			

(Source: Bloomberg Finance, LP. Data subject to shutdown limitations.)

June 2026

The Big Apple’s Rotten Budget Move

Thomas Savidge
Research Fellow

At the end of April, New York City Mayor Zohran Mamdani proposed delaying pension plan contributions to help close the Big Apple's budget deficit.

The problem is that while delaying pension payments could free up $1 billion in the short term, the budget gap is $5.4 billion. This flawed strategy highlights a much larger problem: the Big Apple's biggest budget pains are self-inflicted.

Kicking the can down the road on mandatory pension contributions still leaves a massive hole in the budget while hurting public employees (many of whom helped propel Mamdani into office) and placing greater burdens on New York's shrinking tax base.

If Mamdani does not make the spending fixes on his own terms, markets will force him to do it when the City can no longer find willing investors.

WHY PENSIONS MATTER

A pension liability represents a financial retirement benefit promised to a public employee. Unlike Social Security, these benefits are prefunded: when a public employee retires, the plan *should* have on hand the total amount needed to purchase a lifetime annuity on that employee's behalf.

Pensions are funded through contributions from public employees and taxpayers, as well as investment returns. Public employee contributions are tied to a fixed percentage of payroll, so when investment returns come up short, taxpayers are compelled to cover funding gaps. These benefits are calculated using a formula, including a public employee's final average salary.

In most states, including New York, public employees can also use overtime and unused sick days to increase their final average salary. This practice, known as pension spiking, often results in pension payments that exceed the salaries public employees received while working.

Publicly promised benefits have legal protections that vary state to state. New York guarantees public pension benefits through the New York State Constitution, as well as other state statutes and legal precedents that include pensions as part of a contractual relationship between employers and employees. Benefits can only be revoked if a potential beneficiary is convicted of a felony.

In other words, these promises are rock-solid. The strength of those promises, however, also means that spending on pensions gets priority over other expenditures, including other public services that are deemed "core government functions." That means taxpayers see higher tax burdens while the government becomes more bloated and ineffective.

The only way New York State can change pension benefits without a constitutional amendment is by changing the benefits offered to future hires, which gave rise to the tier system. One's tier is determined by when one was hired. The more recent the hire, the more the employee must pay into the system and the later they can retire.

This has not stopped unfunded liabilities from growing. Public pension liabilities matter because they are one of the largest sources of long-term debt that state and municipal governments face. Massive pension liabilities are a leading contributor to recent fiscal crises, including those experienced by Detroit, Puerto Rico, and municipal bankruptcies across California.

Currently, New York City owes over $40 billion in pension benefits not covered by current assets. That is just under $4,600 per person and a larger liability than the Empire State's aggregated average of $2,681 per person and the national average of $1,475 per person.

That burden will fall on a shrinking number of taxpayers, who cannot seem to escape New York fast enough. The city lost thousands of residents across all income levels in 2025, and New York State is on track to have a decade of population decline.

Now, public employees throughout the Empire State are pressuring state officials to roll back the Tier 6 reforms in 2012, which would promise greater benefits from a city that is increasingly unprepared to pay for them.

BACK TO THE 70S? A FAMILIAR FISCAL PATTERN

By allowing market processes to work, people, not government, can drive lower cost abatement strategies while preserving energy reliability and consumer choice.

In late April, Mamdani declared a fiscal emergency due to structural budget deficits. While his administration inherited a fiscal mess, his own ambitious spending plans only dig New York deeper into the fiscal hole.

Many are quick to compare Mamdani's New York to Mayor John Lindsay, whose similar spendthrift approach led to the 1975 fiscal crisis under his successor, former city controller Abraham Beame.

While New York City is not currently in 1975, it may be in 1965. Much like Mayor Mamdani, Mayor Lindsay positioned himself as an outside urban reformer who grew government during a period of rising welfare costs, labor pressure, middle-class flight, crime, and weakening fiscal discipline. He also blamed his predecessor, Mayor Robert Wagner, for leaving him with massive budget deficits.

Much like today, markets were skeptical of New York City's ability to pay its debts. Unlike today, however, the Big Apple does not appear to be as dependent on short-term bonds as it was before the 1975 crisis. The recent pension contribution deferment, however, resembles the same attitude of short-term debt to cover current spending. This time, however, the city is effectively borrowing against the retirement security of public employees (who were, again, among Mamdani's top campaign supporters) while leaving the bill to future taxpayers.

Economist John Phelan notes that the crisis occurred when the city could not find a willing underwriter, a securities broker or dealer that purchases bonds to resell to investors, for its bonds. This is because news emerged that the city did not have the tax receipts necessary to cover the proposed debt.

The Municipal Assistance Corporation (MAC) was created in 1975 after New York City lost access to credit markets. It served as an emergency financing vehicle, issuing bonds backed by state-controlled revenue streams to help the city meet obligations while forcing budget discipline. MAC also helped shift control away from ordinary city politics and toward state-supervised fiscal management. Although MAC itself was dissolved after its bonds were retired, its legacy remains.

New York's post-crisis guardrails now include the Financial Control Board, balanced-budget rules, limits on short-term borrowing, quarterly monitoring, and four-year financial plans. Those guardrails are weaker than direct crisis control, but they can still tighten if conditions deteriorate.

Mayor Mamdani has already shown a willingness to pressure Albany for additional taxing authority. He pounced on the governor's approved pied-à-terre tax on secondary residences, prompting the departure of Ken Griffin and other business-owners from New York. The recent budget deal reached in Albany further highlights the city's ability to bully the rest of the Empire State into going along with the city's desired policies.

While Mamdani's New York still has willing investors, the past still provides a stark warning. If these recurring promises grow faster than revenues and if higher taxes accelerate outmigration of businesses and high-income residents, today's structural gaps could harden into a deeper fiscal crisis.

HAS THE BIG APPLE GONE ROTTEN?

New York City still has much to recommend it to residents and investors, but the warning signs are increasingly difficult to ignore. New York's future depends on whether its leaders can impose discipline before markets do it for them. If officials continue to squeeze a shrinking tax base, rely on pension gimmicks, and use short-term fixes to close long-term gaps, the city risks repeating the very mistakes that once pushed it to the brink of collapse.

Church Report to FISA: Why Won't Congress Stop the Surveillance State?

Jeffrey L. Degner
Research Fellow

The public shock upon the release of the Final Report of the Select Committee to Study Governmental Operations and Intelligence Activities (The Church Committee Report) in April 1976 is now a quaint memory. Its damning findings on the violation of American citizens' constitutional and natural rights dismayed historian Henry Steele Commager, who bemoaned, "It is this indifference to constitutional restraints that is perhaps the most threatening of all the evidence that emerges from the findings of the Church Committee."

The specifics of the report revealed that the CIA, FBI, NSA, and even the IRS engaged in intelligence collection against US citizens from the 1940s through the early 1970s. These agencies engaged in now-infamous projects such as multiple assassination plans and attempts on the lives of Fidel Castro (Cuba), Rafael Trujillo (Dominican Republic), and Patrice Lumumba of the Democratic Republic of the Congo. These are aside from COINTELPRO, which targeted perceived leftist domestic threats, and Mockingbird, which entailed active CIA recruitment of journalists to propagandize the American public.

The report could have served to expose and roll back such activities. Instead, the surveillance state has grown both exponentially and inexorably advanced. How has our citizenry responded? Public reaction has been comparatively muted and sheepish. In contrast, DC has behaved ravenously.

Indeed, contemporary Americans are now languid, perhaps even expecting federal agencies to surveil, snoop, and in some cases terminate those they deem to be threats to so-called US interests. One of the committee's key findings was that there was a need for a permanent congressional intelligence committee to keep an eye on the executive branch and its abuses of natural rights. It would be up to them to watch the watchers.

This sentiment justified the creation of the Foreign Intelligence Surveillance Act (FISA) in 1978. Americans were told to rest assured, this legislation would prevent such abuses in the future. Nothing could have been further from the truth.

Seven years after the 9/11 attacks, Section 702 was enacted as part of the FISA Amendments Act. According to Rachel Miller, this move "broadened the scope of FISA, allowing the government to conduct foreign intelligence surveillance outside the United States without an individualized application for each target. The FAA garnered bipartisan support, notably from then-Senator Obama in 2008 and more recently former FBI director Christopher Wray."

That bipartisan support may have been a harbinger of the findings of the Privacy and Civil Liberties Oversight Board (itself a bipartisan committee executive agency). It would surprise no one to learn that it has concluded that "incidental" collection of US citizens' data in pursuit of foreign targets shows "no signs of intentional abuse."

Critics point out that in 2023 alone, over 57,000 of these so-called "backdoor searches" were conducted. As a result, the US District Court for the Eastern District of New York found that it is indeed a violation of the Fourth Amendment's warrant requirement as a protection of US citizens' rights.

Despite the fact that many of these abuses are well known to the American public, on April 29th, the House of Representatives voted 235 to 191 with 4 abstentions to renew the section along with the warrantless surveillance it permits. Unable to pass it before its expiration on April 30, the Senate inexplicably passed a 45-day extension, which was swiftly approved by the House by an even wider margin than the initial vote.* For the opposing minority of congressional members, some have called for a requirement that intelligence agents obtain probable cause warrants prior to querying the Section 702 data. Naturally, the intelligence community has pushed back, and the majority of Congress has fallen in line.

This complacency on the part of both the public and the political class and the brazen Constitutional gymnastics from various administrations leads Senator Mike Lee to lament, "the arguments go something like this: 'Yes, there have been problems in the past. Yes, there have been abuses of FISA 702. But you need not worry because we now have procedures in place, administrative procedures that will fix the problem once and for all.'"

By ignoring past abuses and ongoing privacy concerns, surveillance by association is set to stand for the foreseeable future. The sum of the findings from the Church Committee, however, demonstrated a need to shackle the intelligence agencies that violated Americans' rights, all in the name of national security in the three decades after the Second World War. The current Congress, and all those since the implementation of the FISA legislation have failed to uphold the spirit and the letter of the Fourth Amendment's acknowledgement of the people's right to be secure in their "persons, houses, papers, and effects" (which in this author's view includes all digital effects) against unreasonable search and seizure. This isn't a mere suggestion. It's the law of the land.

Proponents of Section 702 are quick to deploy cost-benefit analysis. Seemingly without exception, the conclusion is reached that the alleged safety benefits always outweigh the costs of infringing on constitutionally-recognized human rights. However, a utilitarian worldview withers when scrutinized by the Constitution (not to mention the Declaration of Independence) itself, and its underlying assumptions about the sanctity of property and persons.

The way out of this congressional quagmire is to uphold personal and property rights as our nation's highest values. Until that happens, we can count on the warrantless surveillance (voyeurism?) to continue. Even if it is "incidental."

* In an intriguing twist, Senate Majority Leader John Thune said the bill was dead on arrival because there was a provision that would outlaw the Federal Reserve from establishing a CBDC (Central Bank Digital Currency). Apparently, Thune can tolerate warrantless surveillance, but protecting Americans from digital, programmable, currency is beyond the pale.

Stigler's Blunder: Did a Nobel Laureate Misread Adam Smith

Paul Mueller
Senior Research Fellow

Even great economists can make poor or incomplete arguments. George Stigler, a titan of the Chicago school alongside luminaries like Milton Friedman, Gary Becker, and half a dozen other Nobel Laureates, wrote an essay about what he saw as a surprising inconsistency in Adam Smith's *Wealth of Nations*.

His article, "Smith's Travels on the Ship of State," makes the case that "The *Wealth of Nations* is a stupendous palace erected upon the granite of self-interest." This seems uncontroversial, given Smith's famous description of how the market harnesses self-interest to benefit society. People are "led by an invisible hand" to benefit their fellow man, even without planning to.

Indeed, markets create order through the signals and incentives created by prices, profit, and loss. Stigler praises Smith for his clear-eyed analysis of self-interested behavior in the market. Smith undeniably cast politicians, rulers, and the 'man of system' as self-interested actors.

Besides the profit-seeking of the butcher, the brewer, and the baker through voluntary exchange, Smith also recognized that business could (and would) seek profit through government protection, government subsidies, and government regulations. Smith famously said:

> *People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices.*

Smith warned that governments tend to play a hand in this political profit-seeking – sometimes unintentionally. For example:

> *A regulation which obliges all those of the same trade in a particular town to enter their names and places of abode in a publick register, facilitates such assemblies. It connects individuals who might never otherwise be known to one another, and gives every man of the trade a direction where to find every other man of it.*

But, Professor Stigler argues, Smith did not apply the assumption of self-interested behavior consistently: "Smith gave a larger role to emotion, prejudice, and ignorance in political life than he ever allowed in ordinary economic affairs." Smith's vision becomes clouded when he analyzes political actors and behaviors. And that's a symptom of a deeper malady in Smith – his failure to rigorously and consistently apply self-interest in all human behavior:

> *It is in the political arena that Smith implicitly locates the most numerous and consistent failures of self-interest in guiding people's behavior, but this is not the only place where self-interest fails....Every failure of a person to make decisions which serve his self-interest may be interpreted as an error in logic: means have been chosen which are inappropriate to the person's ends.*

Stigler argued there was no meaningful distinction between market behavior and political behavior: "no clear distinction can be drawn between commercial and political undertakings: the procuring of favorable legislation *is* a commercial undertaking." This sounds similar to "Politics Without Romance," in which James Buchanan argues for "symmetric" assumptions about people in politics and people in markets. We should not assume that people become more altruistic or less self-interested when they engage in political activity. But Buchanan makes this point:

> *The public choice theorist should, of course, acknowledge that the strength and predictive power of the strict economic model of behaviour is somewhat mitigated as the shift is made from private market to collective choice. Persons in political roles may, indeed, act to a degree in terms of what they consider to be the general interest. Such acknowledgment does not, however, in any way imply that the basic explanatory model loses all of its predictive potential, or that ordinary incentives no longer matter.*

Such a point seems straightforward and modest, yet Stigler sees the world differently. Stigler contends that because political actors thrive on self-interest, exhorting them to altruism is a futile exercise. After all, one could not really lower the price of eggs by encouraging egg producers to lower their prices. Why bother asking politicians to ignore their constituents, snub their friends, or abandon the pet projects that secure their power?

> *Why tell the sovereign that free trade is desirable, if one has no method of disarming the merchants and manufacturers who have obtained the protectionist measures....Why believe that better turnpikes await only the appointments of a better class of commissioners?*

And Stigler has a point. The experience of politics is not pretty. Public Choice economics elaborates the theory of special interests and collective action, and documents why political activity is best explained by self-interested behavior. When Smith encourages the sovereign to act in principled, rather than self-aggrandizing, ways, Stigler understandably asks, "how now Professor Smith?"

Smith was optimistic about the force of self-interested behavior leading to social benefit, and also correcting miscalculations and errors, because of competition given the incentives of profit and loss and the signals transmitted by prices. There's a whole literature about the efficiency and inefficiency of political markets. Bryan Caplan's *Myth of the Rational Voter* and Donald Wittman's *The Myth of Democratic Failure* are two prime examples along with the public choice literature.

Hayek, however, claims that "the facts of the social sciences are what people think and feel." So, is it possible to change what people find to be in their self-interest? I'm not referring to changing the material payoffs or benefits they receive, say through greater monetary or physical penalties, but to their valuing states of the world differently. In a famous article written with another Nobel Laureate (Gary Becker), Stigler rules such a question out of bounds for economists. After all, with tastes there is no arguing.

But there is an obvious distinction between politics and commercial arenas: prices! For our purposes, we don't need to determine how efficient or inefficient political signals and competition are to recognize it does not have a market price system. Therefore, we should be more cautious about assuming that self-interested behavior will operate as efficiently and effectively as it does in private markets.

Stigler and Becker flatten the landscape of human motivation, treating our inner drives as static one-dimensional data points. While analytically clean, this approach eviscerates the complexity of human beings. This is not what Smith would (or did) do.

As a moral philosopher, Smith believed that people (whether in markets or in government) can and should be reasoned with. Our morals form through social interaction, and those morals then shape our behavior. Smith famously criticized Mandeville's assertion that all human action is, by definition, self-interested and therefore inherently self-oriented and vice-ridden.

Smith correctly points out that the moral weight of our decisions does not rest on the existence of the self, but on what the self *takes an interest in*. And presumably human beings can choose their interests. Smith reasons accordingly, even if it seems like he fails to apply a narrow self-interest lens at times. But let me tell you from personal experience, not all commissioners are made equal. Smith would encourage us to exhort public officials to do well *and* hold their feet to the fire when necessary.

Data Center Panic Gets Electricity Prices Wrong

Julia R. Cartwright
Senior Research Fellow in Law & Economics

The so-called "AI race" is propelling stock markets to new highs even as geopolitical turbulence rattles investors. Artificial intelligence may prove to be the rare technological revolution capable of generating real growth despite the headwinds of tariffs and misguided industrial policy. Yet the data centers powering this next generation of innovation have become a flashpoint for public anxiety. Maine has outright banned new large data center construction, and average Americans are increasingly convinced that these facilities are to blame for rising electricity bills.

The statewide data, however, tell a different story. Newly published research finds no meaningful link between the number of data centers in a state and its electricity prices and points instead to a far less glamorous culprit: bad state energy policy.

A March 2026 study from the Institute for Energy Research (IER) examined whether data centers are responsible for rising electricity prices across the United States. The answer, based on state-level data, is no. Across all 50 states, there is no statistically significant relationship between the number of data centers and electricity prices. The top ten data center states averaged 14.46 cents per kilowatt-hour in 2025, virtually identical to the 14.39 cents average across all other states.

Perhaps the study's most counterintuitive finding is its strongest: states where electricity sales grew faster actually paid less for electricity. High-growth states averaged a **20 percent** price increase from 2015 to 2025, while low-growth states averaged nearly double that at **39.4 percent**. Unlike most goods, electricity is priced by spreading high fixed costs like transmission lines, generation capacity, and long-term contracts across every kilowatt-hour consumed, meaning the more power that flows through the grid, the cheaper each unit becomes in the long run. Data centers, by driving demand up, actually spread fixed grid costs across more kilowatt-hours, which results in a per-unit rate decrease for everyone.

So why are so many Americans convinced otherwise?

Because in the short run, at the local level, the story is more complicated. A Bloomberg analysis of wholesale electricity prices across 25,000 grid nodes found that prices have risen as much as **267 percent** since 2020 in areas near major data center clusters. More than **70 percent** of nodes recording price increases were located within 50 miles of significant data center activity.

In these regions, data centers create a surge in demand on local grids. When transmission capacity is constrained and new generation has not yet come online, prices spike. Those higher wholesale costs can then filter into retail bills, at least in the short run, and local consumers bear the brunt of this regional electricity demand.

The discrepancy in these two studies indicates a timing problem. The long-run economics favor more demand, but the short-run reality is that infrastructure takes years to build, and consumers near data center hubs can be left paying for that gap. The IER study measures retail prices averaged across entire states; Bloomberg measured wholesale prices at specific grid nodes near data center hubs.

State averages mask local effects. Northern Virginia's price pressure gets diluted when blended with rural Appalachia, for example. Both findings can be simultaneously true: data centers are not driving broad statewide price divergences, but they can create localized grid strain where infrastructure and regulatory frameworks have failed to keep pace with demand.

That distinction matters enormously for policy. Concentrated price spikes are not evidence that data centers are inherently incompatible with affordable electricity; they are evidence that grid infrastructure and cost allocation rules haven't kept up. Oregon's POWER Act, which requires large electricity users to bear the costs of infrastructure built specifically for them, is a model worth watching. By creating a separate rate class for data centers and requiring long-term contracts so they pay for the grid upgrades they demand, the law moves closer to a core market principle — prices that reflect true costs. However, it still relies on regulators rather than competitive markets to set those prices. These are targeted, incremental steps toward aligning prices with actual costs, far preferable to blunt restrictions that distort markets and stifle investment.

The deeper problem, as a growing body of research makes clear, is state energy policy itself. A Charles River Associates report found that rate increases are heavily driven by local regulatory conditions, particularly policy environments in California and the Northeast. A Lawrence Berkeley National Laboratory study identified renewables portfolio standards, particularly in states with costly incremental renewable supplies, as a consistent driver of rate increases. The common thread is that electricity prices are fundamentally a product of institutional design, not data center headcounts.

America is not going to win the AI race by making it harder to build the infrastructure AI requires. The moment calls for the opposite instinct: streamlining permitting for new generation and transmission, updating interconnection queues, ensuring large electricity users pay for their full cost to the grid, and getting out of the way of the demand growth that tends to lower per-unit costs over time. The appropriate response to rising electricity costs near data center hubs is to reduce barriers to grid expansion and allow energy supply to scale alongside demand, preserving both affordability and competitiveness.

June 2026

The Endless Search for Emergency Tariff Authority

David Hebert
Senior Research Fellow

The legal foundation for taxing every import into the US has now rested, at various points in the past year, on a 1977 emergency powers law, a 1974 statute designed for a monetary system that no longer exists, and — if the administration's next move is what trade lawyers expect — a Depression-era provision that has never once been used to impose actual tariffs in almost a century. At some point, running out of legal justifications is a signal worth heeding.

In February, the Supreme Court ruled that President Trump's sweeping IEEPA tariffs were unlawful. The Court's rebuke was clear: Congress had not clearly delegated that kind of sweeping tariff power to the executive branch, and the President "enjoys no inherent authority to impose tariffs during peacetime."

Before the ink was even dry on that opinion, the White House signed Proclamation No. 11012 and imposed a new 10-percent tariff on basically every imported good. This time, the administration cited Section 122 of the Trade Act of 1974 and the so-called "balance-of-payments authority."

In a 2–1 decision, the Court of International Trade struck that one down, too.

SECTION 122 AND THE NEXT LEGAL FIGHT

Section 122 of the Trade Act of 1974 was written for a monetary world that no longer exists. Prior to this statute, several foreign currencies were pegged to the dollar, and the dollar was, in turn, pegged to gold at $35 per ounce. This changed in 1971 when President Nixon severed the dollar's link to gold and, in turn, hit the world with a **10 percent** surcharge on imports. Congress, watching all of this happen in real time, wanted to give the president a narrow, carefully-defined emergency power to impose *temporary* tariffs when the US faced specific, identifiable, and measurable monetary crises.

The statute authorizes the President to act to deal with "larger and serious United States balance-of-payments deficits." This phrase had a precise, technical meaning. Economists measured the balance of payments using three specific metrics: the *liquidity balance*, the *official settlements balance*, and the *basic balance*. Without going into too much detail, these tools were designed to track whether the US had enough gold and reserves given the dollar's fixed exchange rate.

With a floating exchange rate system and fiat money, however, these measures are all but obsolete. The Bureau of Economic Analysis stopped reporting them in 1976, just two years after the Trade Act of 1974 (and with it, Section 122) was enacted.

Gleaning from the court's ruling, the Trump administration argued that the "balance-of-payments deficit" is a living concept that should be updated for modern conditions. Today, they said, the correct measure is the *current account deficit*.

COURTS QUESTION THE PRESIDENT'S PREMISE

The Court of International Trade was not convinced by this argument. The court reasoned that Congress used specific words that had specific meaning in 1974, and that their job is to interpret what those words meant *when they were written*, not to update their meaning in light of the world today. As the court put it, "the 'balance of payments' as an accounting principle always nets to zero."

To the extent that is the case, if the President has the ability to select among the sub-accounts to identify a balance-of-payments deficit, unless every sub-account is balanced, the President would always be able to identify a balance-of-payments deficit." In footnote 33, they go further, saying,

> *Defendants argue that 'the balance-of-payments current account [is] the only reasonable measure of a balance-of-payment deficit.' This argument lacks support in either the statute's text or legislative history. Defendants' position is the President has discretion to identify any actionable deficit for purposes of Section 122(a)(1). But Section 122 would lack an intelligible principle if the President could simply identify any deficit account, or if the phrase 'balance-of-payments deficits' could change with context.*

In other words, the court pointed out that if it accepted the government's premise, any President could always point to a "deficit" somewhere and, on that basis, justify tariffs. In a system with an unconstrained imagination, that is no real limit on presidential power. As we have seen in recent years, courts have been increasingly reluctant to accept broad, open-ended delegations of Article II authority to the executive.

WHY MOST PLAINTIFFS LOST

The court's ruling issued a permanent injunction — essentially an order to "stop it" — but it applies only to the actual importers who brought suit, not to every plaintiff in the case. Specifically, the injunction covers the State of Washington, which imported goods through the University of Washington, a small New York spice company called Burlap and Barrel, and a Florida toy company called Basic Fun.

The other plaintiffs were dismissed for lack of standing because they could not show they directly paid the tariffs, only that they might face higher costs as downstream purchasers. The court found that too speculative. Those claims were dismissed without prejudice, however, meaning the plaintiffs are free to refile if they can later establish proper standing.

THEE LATEST LEGAL THEORY: SECTION 338

The game of whack-a-mole that we have seen vis-à-vis tariff policy is certainly not going to stop. The Section 232 tariffs on products such as steel and aluminum remain in place and could still be expanded or modified, and the administration has already begun the process of implementing Section 301 tariffs. But there is another tariff authority that could be used as well: Section 338 of the Tariff Act of 1930.

This section gives the President the authority to impose tariffs of up to **50 percent** on imports from any country that "discriminates" against US commerce. Unlike IEEPA and Section 122, this is an unambiguous statute that allows the president to do so. The very first line of the section reads, "the President when he finds that the public interest will be served shall by proclamation specify and declare new or additional duties as hereinafter provided."

This as-yet-unused authority has three features that make it the likely next step in the tariff saga. First, it allows for tariff rates up to **50 percent**. This is already higher than most of the IEEPA tariff rates that were imposed before they were struck down. Second, it only requires that the President "finds as a fact" that a foreign country is discriminating against US commerce, with no mandatory investigation, no notice-and-comment period, and no notification to Congress required. Third, it allows the President to issue a total ban on imported goods from a country that does not relent in response.

Given all of this, the obvious question is "why didn't the President use this authority to begin with?" There are a few potential reasons. First, any tariff rates announced are not allowed to be implemented for a period of at least thirty days *after* the proclamation is issued. While the president famously issued extensions, pauses, and delays in rolling out several of the tariffs he announced throughout 2025, this thirty-day period does mean that the authority granted here is not as immediate as the President may have liked.

Second, the statute assigns the US International Trade Commission with the duty to "ascertain and at all times to be informed whether any of the discriminations against the commerce of the United States…are practiced by any country; and… to bring the matter to the attention of the President, together with recommendations." Because of this, it's not clear that the President can act unilaterally and at his discretion or if he needs some pro forma report from e.g. the US Trade Commission before he can act. Could he, for example, raise tariffs on Switzerland because he didn't like the way their former president talked to him without US Trade Representative Jamieson Greer recommending that he do so? It's unclear.

Finally, sweeping tariffs of the sort that the administration seems to prefer are legally difficult under Section 338. The statute requires that the tariffs be country-specific and must be designed to "offset" any damages done. This makes it harder to implement broad, sweeping tariffs, though, as we saw last summer, the White House is perfectly able to use mail-merge to send letters to numerous countries announcing new tariff rates, perhaps obviating this concern.

WHICH WILL RUN OUT FIRST— COURT'S PATIENCE OR THE PRESIDENT'S CLAIM TO AUTHORITY?

The problem the President is going to run into is that he has now tried and failed to claim open-ended tariff authority twice. It is clear that courts are reading congressional delegations very carefully and very narrowly. If the President tries to use a Depression-era statute designed to address discrimination to reconstruct the IEEPA tariffs, he will almost certainly face a very skeptical bench. If it looks like IEEPA, walks like IEEPA, and sounds like IEEPA, we shouldn't be surprised if the court treats it like IEEPA.

No, AI Won't Make Money Obsolete

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The notion that artificial intelligence at full bloom might eliminate the need for money reflects a deep confusion about what money is and does. Money is not merely a barter-avoiding convenience layered onto an otherwise frictionless world. It is a solution to fundamental problems of exchange, profound difficulties in coordination, and comparison of alternatives under scarcity. Even in a hypothetical future defined by extraordinary productivity gains and broadly collapsing prices, those underlying problems do not disappear. Instead they change form, and for as long as scarcity, tradeoffs, and uncertainty persist in any domain, so too will the need for money.

To begin with the most basic point: scarcity is not abolished by abundance. It is displaced. AI may dramatically reduce the cost of producing many goods and services, particularly those that are digital or easily replicable. But large swaths of economic life remain governed by constraints vastly beyond the power of computation. Land is fixed. Location is inherently scarce. Prime real estate in places like New York City or Tokyo will not become abundant simply because construction costs fall precipitously. The same holds for proximity to infrastructure, culture, or social networks. These are rival, excludable goods, and in such conditions, exchange requires a mechanism for allocating access. Money remains the most efficient one yet developed.

Time is another irreducible constraint. Human attention, especially in its highest-value forms, cannot and will not scale infinitely. The time of a skilled surgeon, an experienced trial lawyer, or a sought-after performer remains finite, tentative, and rivalrous. Even if AI were to augment their capabilities, it does not eliminate the fact that their attention must be allocated among competing uses. The same applies to live experiences: concerts, events, one-on-one advisory relationships, and so on, where presence itself is scarce. In such contexts, prices are not a relic — they are a reflection of incontrovertible limitations.

In fact, abundance often *amplifies* the importance of scarcity. As mass-produced goods become ever cheaper, a premium will shift toward what cannot be easily replicated. Consider status goods, fixed positional assets, and signals of taste. Luxury brands, rare collectibles, and authenticated works derive value precisely from their limited supply and provenance. If AI floods the world with high-quality substitutes, the value of the original or source item may increase, not decrease. Money, in this sense, becomes a way of expressing relative preference over increasingly differentiated manifestations of scarcity.

Physical systems themselves impose limits. Energy, for example, may become cheaper on average, but it inexorably faces capacity constraints, especially during peak demand periods. The same is true of certain materials, bandwidth, and computational resources in periods of congestion. Even highly advanced systems must allocate finite capacity across competing uses, and money prices remain an extraordinarily efficient, indeed elegant, way of doing so. Without them, the hallmarks of rationing — queues, quotas, and administrative fiat — appear, none of which eliminate, but rather contend with and obscure, scarcity.

The unavoidable force of uncertainty is perhaps the most decisive argument against the obsolescence of money. Risk does not vanish amid colossal gains in productivity and output; if anything, complex, tightly coupled systems generate new forms of it. An explosion of goods and services will tax resources, time, and human capital, which will in turn generate new forms of insurance, hedging, and credit to transfer and price risk. Those functions require not just a medium of exchange, but a unit of account to operate effectively. The idea that AI could eliminate uncertainty is as implausible as the idea that it could eliminate time.

Institutional realities reinforce the former point. Anywhere one finds government or governance, excludability inevitably follows. Property rights, regulatory approvals, access to bespoke networks, and enforcement mechanisms all create domains in which access is controlled. Money is readily suited to become (or, in fact, continue to be) the means by which access is negotiated, transferred, or prioritized. In a world inundated by output, trust and verification become more valuable. Certification, auditing, and reputation systems all rely on mechanisms of exchange that presuppose some form of monetary unit.

Money also plays a central role in coordinating urgency and priority. When resources are scarce in time versus in quantity (faster service, guaranteed delivery, dedicated capacity) money allows individuals to signal how much they value immediacy relative to others. Absent money such decisions do not disappear; they are made through other, often less transparent means.

An AI-driven deflationary boom would likely compress the prices of many goods and services. Perhaps dramatically so. But that would not, and could not, eliminate the need for money. It would shift the domain in which prices and calculations operate toward the non-replicable, capacity-limited, and institutionally governed.

Money does not disappear in the face of abundance; it instead follows scarcity wherever it emerges.

Headline Inflation Surged in March, but Core Remained Muted

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Headline inflation cooled in April, but not enough to give the Federal Reserve much comfort. The Consumer Price Index rose **0.6 percent** last month, down from March's **0.9 percent** increase. Yet the year-over-year rate moved in the wrong direction, rising to **3.8 percent** from **3.3 percent** and extending the reversal of the disinflationary trend that had prevailed earlier this year.

Core inflation told a less encouraging story. Excluding volatile food and energy prices, CPI rose **0.4 percent** in April, double the **0.2 percent** pace recorded in each of the prior two months. The year-over-year core rate also ticked up, rising to **2.8 percent** from **2.6 percent**.

The moderation in headline CPI mainly reflected slower energy price growth. Energy prices rose **3.8 percent** in April, well below March's **10.9 percent** surge, while gasoline prices climbed **5.4 percent** after jumping **21.2 percent** in March. Even so, gasoline prices are up **28.4 percent** over the past year, reflecting the cumulative effect of the oil shock tied to the conflict involving Iran and disruptions to shipping through the Strait of Hormuz.

But the April report was not simply an energy story. Shelter, which accounts for about one-third of the CPI, rose **0.6 percent** after increasing **0.3 percent** in March, although the increase is likely due to mismeasurement stemming from last fall's government shutdown. Food prices rose **0.5 percent**, with grocery prices up **0.7 percent**. Several core categories also posted sizable increases: household furnishings and operations rose **0.7 percent**, airline fares jumped **2.8 percent**, personal care rose **0.7 percent**, and apparel increased **0.6 percent**. New vehicle prices, communication prices, and medical care moved lower, but not by enough to offset the broader firming elsewhere.

The three-month trend is the clearest sign that price pressures have strengthened. From February through April, headline CPI averaged **0.6 percent** per month, equivalent to roughly a **7.4 percent** annual rate. That figure is distorted by March's energy spike, but core inflation points in the same direction without the energy noise. Core prices averaged roughly **0.27 percent** per month over the same period, or about **3.2 percent** annualized, above the **2.8 percent** year-over-year core rate.

The Federal Reserve officially targets the personal consumption expenditures price index, not CPI. But the April CPI report still gives policymakers little reason to consider easing. Inflation remains above target, core inflation has picked up, and the recent monthly data look worse than the year-over-year figures suggest. Markets agree: the CME Group's FedWatch tool shows futures pricing in an almost certain hold at the Fed's June meeting and little expectation of a rate cut this year.

The labor market does not provide much of an offsetting argument. April payrolls rose 115,000, and the unemployment rate held steady at **4.3 percent**. Average hourly earnings rose **0.2 percent** in April and **3.6 percent** over the past year. That is not an overheated labor market, but neither is it one showing enough weakness to justify rate cuts in the face of firmer inflation.

Following the April FOMC meeting, Chair Powell described an economy "expanding at a solid pace," with a labor market that had changed little and inflation that remained elevated. The latest data support that characterization. Powell also pointed to tariffs and oil-driven energy costs as important sources of above-target inflation. The April CPI report complicates that diagnosis. Energy clearly mattered for headline inflation, but the acceleration in core prices, the pickup in shelter, and the breadth of monthly gains suggest price pressures are not confined to oil or tariffs. Additionally, the latest Producer Price Index out today, a leading indicator for future consumer price rises, points to hotter inflationary pressures on the horizon.

That matters for policy. If inflation were only the result of a temporary energy shock, the Fed could look through some of the increase. But when core inflation accelerates and shelter costs pick back up, easing becomes much harder to justify. Rate cuts would do little to produce more oil or clear shipping lanes, but they could add demand to an economy where inflation is already running too hot.

The Fed should not overreact to one CPI report. But it should not ignore the signal either. Headline inflation remains elevated, core momentum has firmed, and the labor market is not weak enough to call for easier policy. The case for cutting rates is extremely weak. The Fed should hold.

Claims of Housing 'Oversupply' Are Misleading

Jason Sorens
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With house prices moderating across much of the US, industry professionals and commentators are now beginning to talk about "housing oversupply" in certain markets. Take Nick Gergli, who posted on X,

> *Let's talk about Washington for a second. This is a state no one is really paying attention to, but almost overnight, it's now th most oversupplied housing market in th U.S. Inventory hit 17,590 listings in March 2026, when the long-term average is only 10,785.*

Media outlets and trade groups have offered similar framing.

Florida and Texas "not only became red-hot during the pandemic," Newsweek reported, "but also initiated a construction boom that, once the home-buying frenzy waned, left an oversupply of homes on the market right as the number of those wanting to buy, or able to afford them, was dwindling."

"The main culprit for slowing price growth?" National Mortgage Professional asked. "An oversupply of homes relative to buyer demand, as affordability challenges and economic uncertainty continue to weigh heavily."

Maybe these writers are using the term "oversupply" in a way that makes sense in their industries, but what they're really referring to is a disequilibrium that causes prices to fall. The mistake some people make is to infer from this temporary surplus that we should no longer pursue regulatory reform to increase the supply of housing.

This mistake has found its way into *The Washington Post*: "Over the next five years, estimates show that demographic shifts and a surge in construction will supply enough units to bring down prices and resolve the housing crisis." Because of this, the author claims, the Yes in My Back Yard movement's focus on reforming regulations is unwarranted.

At a conference last month in Florida, I heard the same thing from a pair of real estate professionals: We don't need more supply; there's already too much unsold inventory.

What's wrong with this view is that it confuses a temporary disequilibrium with a shift outward in our production possibilities. When economists think about "supply," we mean the entire schedule of feasible prices and quantities under existing technology. (Think about "technology" broadly, to include the costs of regulatory compliance.)

What's happened in most of the Sunbelt is a combination of two things. First, there was a temporary outward shift in supply caused by negative real interest rates in 2021–2023. Builders had a strong incentive to borrow, just as home buyers had a strong incentive to take out big mortgages. They could finance new construction at lower costs. In places where the regulations allowed a lot of new construction, that's just what we saw, but it took a few years for those homes to reach the market because even under the best of circumstances, it takes a long time to design, permit, build, inspect, and market a bunch of new homes.

Second, the unusual monetary environment during the pandemic also stimulated housing demand. But this was a temporary shift in demand, concentrated in places with high amenities where "work from home" was feasible. As mortgage rates rose again and inflation fell, driving real rates sharply higher, the for-sale housing market locked up. Demand fell, but inventories remain depressed because potential sellers want to avoid trading a low-rate mortgage for a high-rate one.

Thus, much of the Sunbelt region — especially those places where regulations allowed a lot of new building and where demand initially surged the most because of amenities like mild climate and access to beaches or mountains — is now experiencing falling housing demand alongside the tail end of a temporary supply boom. For the market to reach equilibrium, it is necessary for prices to fall.

And that's just what we see. Figure 1 shows the percentage change in single-family house prices by state between the fourth quarter of 2024 and the fourth quarter of 2025.

Florida had the biggest price decline in the entire US. Most of the West has seen sluggish price growth or outright declines. At the other end of the spectrum, some traditionally low-demand states, like New York, Illinois, and Michigan, have seen strong house price growth. They never saw the pandemic building surge that the Sunbelt did. Figure 2 shows building permits per capita for Florida, Texas, Colorado, Illinois, New York, and Michigan from 2019 to 2025.

The three fast-growing states have permitted anywhere from two to six times as many homes per capita as the three slow-growing states. The pandemic permitting boom is barely discernible, if at all, in the data from New York, Illinois, and Michigan. With no supply hangover to work through, it is unsurprising that house prices have risen there in the last year.

We shouldn't overinterpret these short-term figures. House prices in California are not going to fall to the level of Michigan's, or anywhere close. But more importantly, we should not overinterpret the cyclical data to reject policy solutions for housing abundance that involve permanently shifting out the supply curve. When we require less land and parking per unit of housing, less time to get permits and inspections, and lower risks of getting tangled up in court, we make housing development more productive: we get more housing for the labor and materials we dedicate to building it.

The case for YIMBY reforms never depended on the pandemic house price cycle. If we can reform regulations to reduce what it costs to build new homes of equivalent quality, we can have more housing and lower housing costs for the long term, not just the trough of a momentary cycle. The case for more housing abundance is just as strong in states where prices are falling as it is in states where prices are rising. Some of the states where prices are falling might be closer to housing abundance than others, because their regulations did less to choke off new supply during the pandemic to begin with, but no one has gotten the policy regime precisely right.

The promise of regulatory reform is that when we allow the market to deliver the right types of housing in the right places at sustainable costs, we'll all be better off.

Figure 1: House Price Growth by State

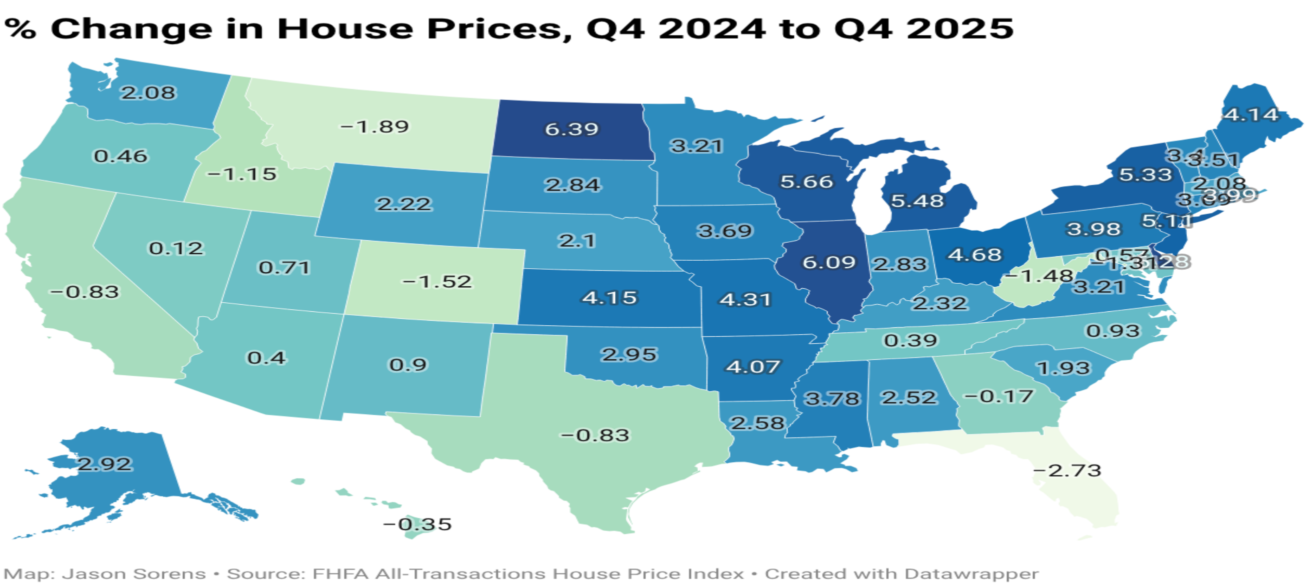
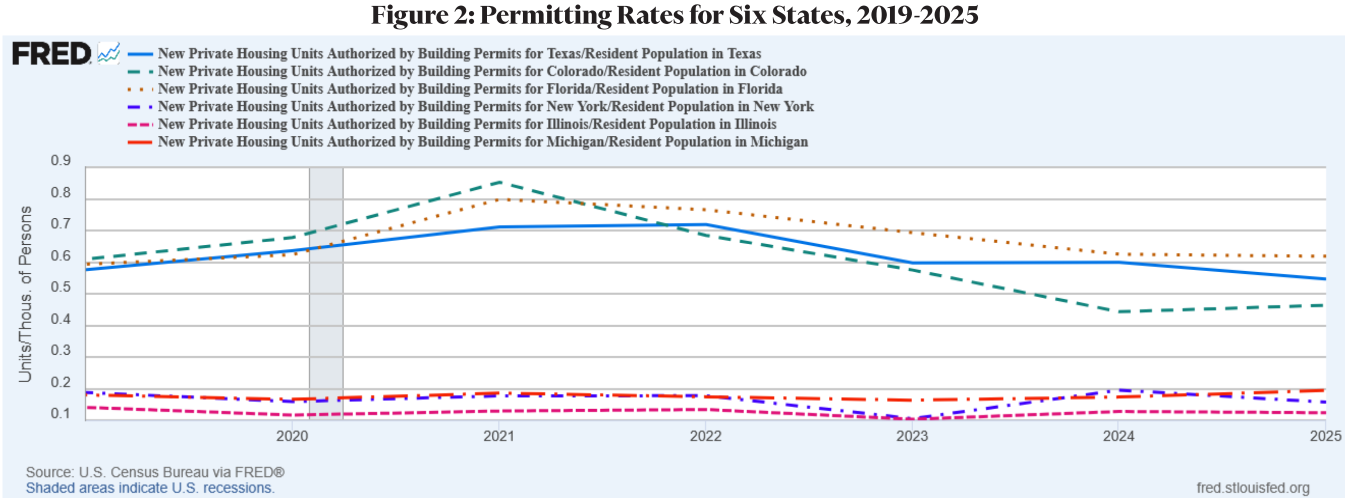


Figure 2: Permitting Rates for Six States, 2019-2025



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