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US: CAPPED POTENTIAL

Berenberg Macro View

Yet another policy mistake: The Trump administration's anti-growth policymaking does not seem to get a break. Last Friday, President Donald Trump signed a proclamation requiring a $100k application fee to obtain an H1B visa -- a US work visa for skilled foreign professionals. Deportation efforts, attempts to strip work permits from existing employees, and a hostile environment for foreign workers have already caused labour force growth in the US to nearly flatline. With the new H1B policy, the labour force is more likely to shrink than expand going forward. The future of economic growth now depends almost exclusively on productivity gains (see more: making room for the AI boom). However, by making it very expensive for companies to attract foreign talent, and by forcing some international students to leave the country after graduation, the brain drain will weigh heavily on productivity. Investments in artificial intelligence (AI) are unlikely to offset the damage caused by the loss of human capital under restrictive immigration policies. Big Tech firms, which lead capital expenditure on AI, rely most heavily on the H1B visa programme. We have lowered our estimate for US trend growth from 2.0% at the start of the year to 1.5% now. Unless Trump relents, even that 1.5% may soon look optimistic. Taken together, the erosion of trust in institutions, a loss of human capital, tariffs, chronic uncertainty, and unsustainable fiscal policies can raise the tail risk of a financial crisis in the US. In the long run, they may set a path for an even weaker dollar and higher long-term yields.

Can the economy still grow with no job creation? Yes, but at a slower rate and with a higher risk of stagnation or recession. Since April, the economy has created merely 100k jobs. Taking into account future revisions, which will only show up in data by February 2027, that 100k is essentially closer to zero. Yet the economy remains on track to grow nearly 3% qoq annualized in Q3 after expanding at an average rate of 1.4% in the first half of the year. The stock market is at all-time highs and corporate spreads remain ultra-tight. Two main reasons explain why growth figures and financial markets do not reflect the jobs slowdown: i) ballooning household wealth, and ii) AI-related investments. Despite no job creation, tight lending conditions, lack of immigration support, and fading purchasing power due to tariffs, consumers are still spending more. Rising household wealth, driven by the equity market rally, help high-income consumers to carry most of the consumption gains. However, this trend is unsustainable. It makes the economy increasingly vulnerable to an equity market correction. AI-related investments power growth through equipment spending and help sustain the equity market rally. Yet this remains a risky bet that may not deliver the returns markets expect. If it fails, households' record-high exposure to the equity market and consumption's dependence on the AI boom could push the US into a recession. Remember, the National Bureau of Economic Research (NBER) determines whether the US is in a recession based on six aggregate variables, not per capita figures. Two of these are household and nonfarm payroll employment, which could slide persistently without immigration support. Real income less personal transfers is another

variable that could fall into negative growth. Wage growth may rise due to labour shortages, but tariff-driven price increases could outpace income gains especially when employment growth is quite slow. The remaining three variables -- consumption, manufacturing and trade sales, and industrial production -- depend heavily on household wealth gains and AI hype. So, it looks like the risk of recession ultimately depends on when markets decide if AI proves a bust or a boom. We do not expect a recession in the near-term, but anti-immigration policies tilt the risk to our forecast of 1.7% growth in 2026 to the downside.

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