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INSIGHT

Six Imbalances Facing the U.S. Economy

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The economy has been growing in line with its potential, and the unemployment rate has been relatively low since the recovery from the 2020 COVID pandemic. Nevertheless, the economy faces several imbalances that pose risks to economic expansion if their unwinding were disorderly. The presence of these imbalances does not necessarily suggest that a recession is currently likely—expansions always face risks, and the probability of an imbalance causing a recession at any given time is low. If Congress seeks to bring any of these factors into closer balance to reduce macroeconomic risk, it has tools to do so, though deploying such tools involves policy trade-offs. This Insight briefly highlights six broad imbalances and the factors driving them, with links to more detailed discussions.

Inflation

The pandemic set off a period of unusually high price inflation (peaking at 8% in 2022), which remains higher than it was in the decades before the pandemic, as seen in **Figure 1**. In addition to the pandemic, other disruptions have contributed to high inflation—most recently, the Iran conflict has resulted in volatile energy prices. At various times since 2021, energy, food, and shelter prices, among other categories, have risen quickly.

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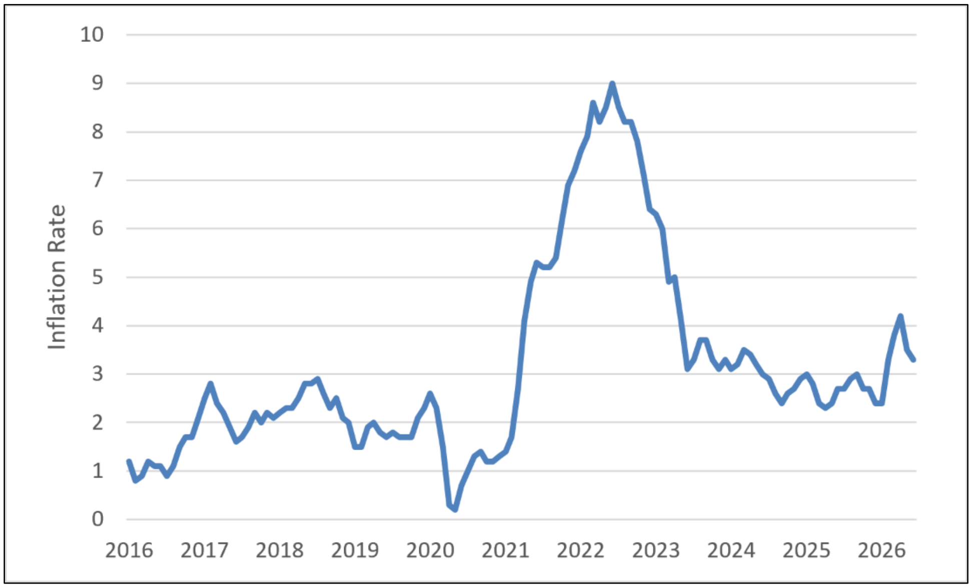
Figure 1. U.S. Inflation Rate, 2016-2026

12-month change in Consumer Price Index



Source: Bureau of Labor Statistics.

High inflation has fueled concerns among some Members of Congress and the public about affordability. *Affordability* is typically a relative concept and can be thought of in terms of prices relative to earnings or income. At times, earnings and incomes have kept pace with inflation since 2021, and at other times they have not.

Inflation is primarily affected by monetary policy, which is controlled by the Federal Reserve (Fed), but reducing budget deficits (discussed next) could make it easier for the Fed to reduce inflation.

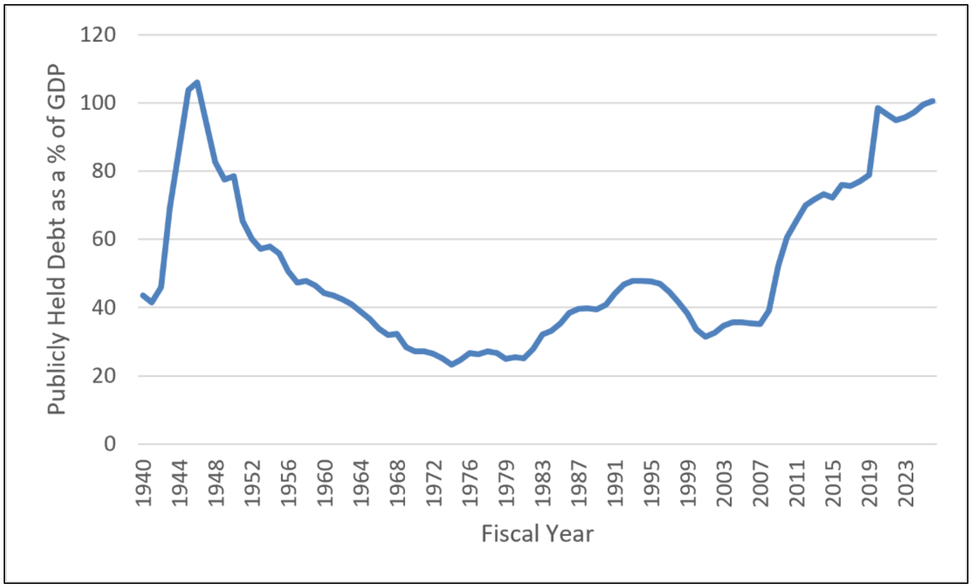
See CRS In Focus IF13189, *Is "Affordability" An Attainable Policy Goal?*, by Lida R. Weinstock and Marc Labonte.

Federal Budget Deficit and Borrowing Costs

Since the pandemic, the federal government has run historically large budget deficits relative to gross domestic product (GDP)—estimated to be above 5% of GDP each year since FY2020. When unemployment is low, economic theory suggests that large budget deficits will push up general interest rates and the trade deficit (discussed next). The economy has featured higher interest rates and a relatively large trade deficit in recent years.

As a result of persistently large deficits, federal debt is historically high (projected to reach 100% of GDP for the first time since World War II this year, as shown in **Figure 2**) and is projected to continually grow more quickly than the economy, which economists consider to be unsustainable in the long run. This has increased the federal government's borrowing costs, limited Congress's future fiscal maneuverability to respond to future crises, and created a potential financial vulnerability—future deficits can continue only if private investors (including foreign investors) are willing to continually finance an ever-larger debt.

Figure 2. U.S. Federal Debt, 1940-2026



Source: Office of Management and Budget and Congressional Budget Office (CBO).

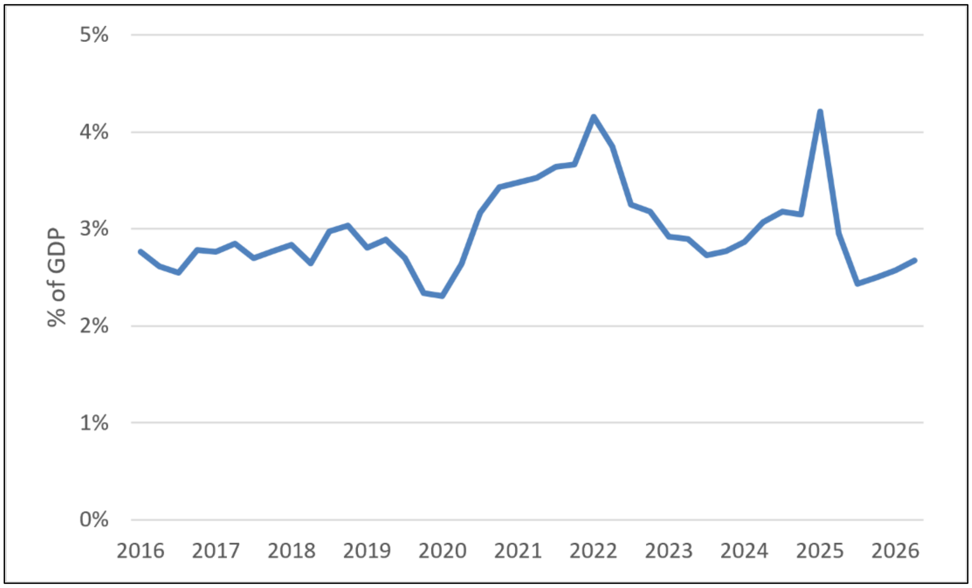
Notes: 2026 is CBO's baseline projection.

See CRS In Focus IF11253, *Introduction to U.S. Economy: Fiscal Policy*, by Lida R. Weinstock.

Trade Deficit

The United States has run a trade deficit each year since 1976. By accounting identity, trade deficits reflect the shortfall between domestic saving and investment. As economic theory would predict, the United States has continued to run a relatively large trade deficit despite the President raising tariffs on imports starting in 2025 (see **Figure 3Error! Reference source not found.**). Research suggests that higher tariffs have been partially passed through to consumers in the form of higher prices.

Figure 3. U.S. Trade Deficit, 2016-2026



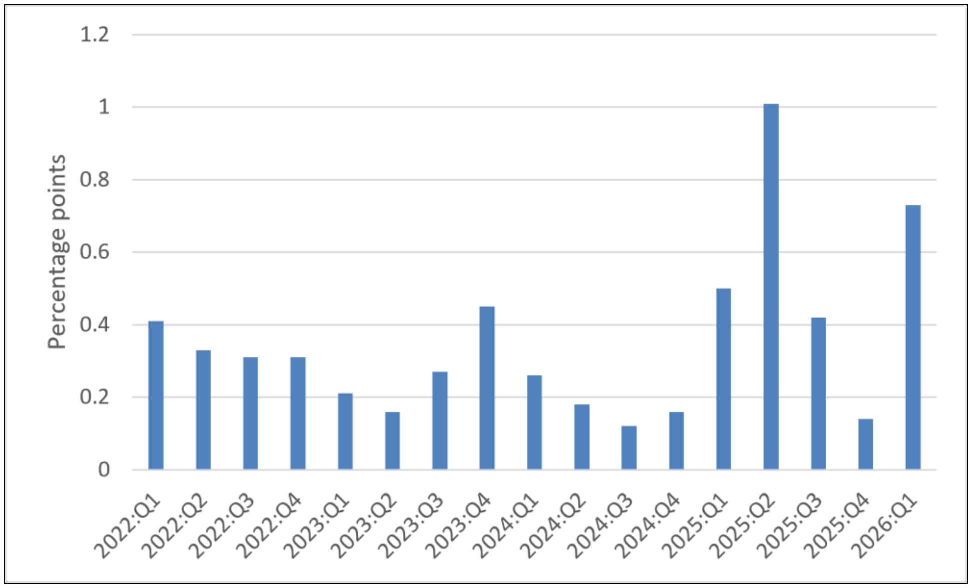
Source: CRS calculations based on data from the Bureau of Economic Analysis.

See CRS In Focus IF13047, *Introduction to U.S. Economy: Trade Deficit*, by Marc Labonte and Lida R. Weinstock.

Artificial Intelligence (AI)

Recent advances in AI have revolutionized some jobs and tasks, creating new jobs in some areas while replacing jobs in other areas. AI appears to have contributed to moderately higher productivity growth; has led to a surge in business borrowing and investment in data centers, semiconductors, and other physical capital spending; and has fueled a surge in tech stock prices. While these factors have generally had a positive effect on the overall economy to date (see **Figure 4**), there is risk of an AI bubble that might be economically disruptive if it were to subsequently burst. Meanwhile, AI has introduced new risks to the economy, such as higher risks of cyberattacks.

Figure 4. Estimated Contribution of AI Investment Spending to Quarterly U.S. Growth, 2022: Q1-2026: Q1



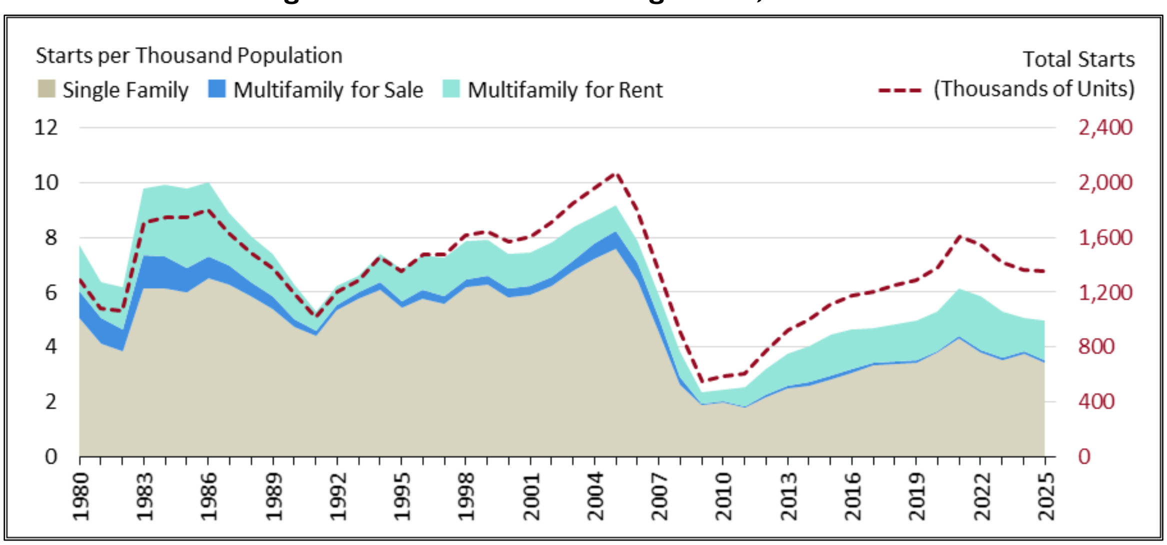
Source: Soto, Thieu, and Allen.

See CRS In Focus IF12762, *The Macroeconomic Effects of Artificial Intelligence*, by Lida R. Weinstock and Paul Tierno.

Housing Markets

Since the pandemic, housing markets have generally featured rising prices and rents, higher mortgage rates, and less new housing built per capita (see **Figure 5**). This has led to a modest decline in the homeownership rate, a decrease in housing affordability, and a decline in the percentage of families that have moved.

Figure 5. U.S. Private Housing Starts, 1980-2025



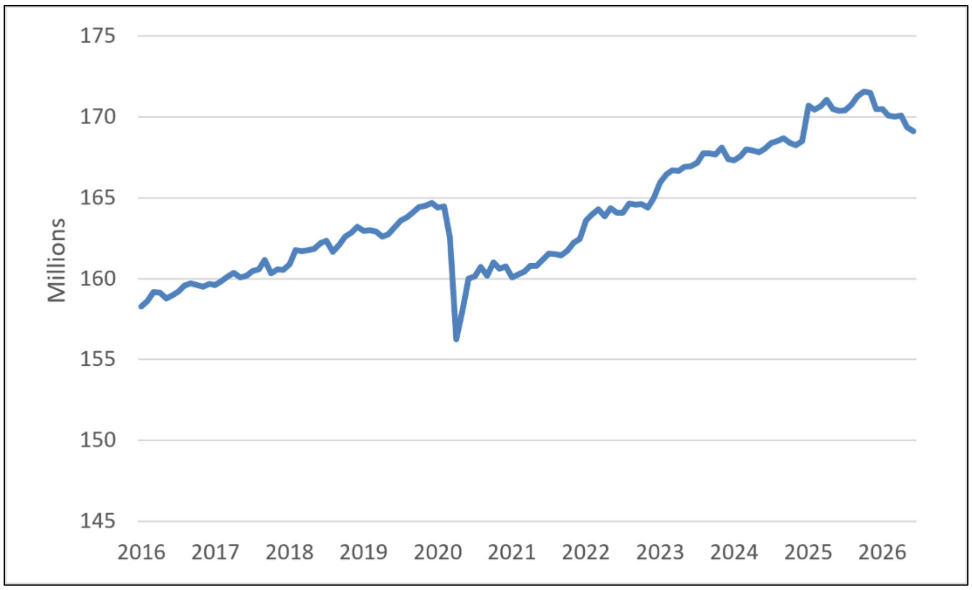
Source: CRS calculations based on data from the Census Bureau and the Bureau of Labor Statistics.

See CRS Report R48892, *Housing Supply: Current Trends and Policy Considerations*, by Lida R. Weinstock.

Labor Supply Slowdown

A growing economy depends on an increase in employment, which in turn depends on an increase in the labor supply to fill jobs. The supply of available workers has declined since late 2025 (see **Figure 6**)—a rare occurrence in the post-World War II period—primarily due to the aging of the population and recent changes in immigration policies. This has disproportionately affected certain areas and industries, notably those more reliant on foreign-born workers.

Figure 6. U.S. Labor Force, 2016-2026



Source: Bureau of Labor Statistics.

The aging of the population is a long-term trend that has caused the labor supply to grow more slowly in recent years. Changes in immigration policy have reduced net migration since 2025, after four preceding years of relatively high net migration.

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