AXA Group Research

Those Who Invest and Those Who Save

- The jobless IT boom may explain some of the discrepancy between GDP growth and job creation in the US lately.
- We look into French and German national saving patterns.

Washington DC continues to be a source of noise, between the new 100% tariffs on pharmaceutical products (but in principle shipments from the EU should be protected by the framework negotiated in July) and another government shutdown looming (although the market has become quite blasé: it would be the 20th episode since 1977). This week however we want to extricate ourselves from the short-term news flow and explore further the discrepancy in the US between still good GDP figures and decelerating employment. Part of the explanation may lie in the disproportionate contribution from capex in Information Technology (IT) which provided one third of total gains in GDP over the last 4 quarters. Without IT acceleration, GDP growth in the US would already be below potential. Still, contrary to the experience of the 1990s "New Economy", when IT industries created 1 million jobs, over the last year or so this has been a "jobless boom". We must be prudent given the volatility in recent jobs data, but it might be that AI-generated automation is having its biggest impact on jobs in the IT sectors themselves. Separately, the IT boom is triggering a surge in electricity demand without a matching rise in capacity, especially in a context when renewable energy projects are frozen. This contributes to the rebound in inflation by lifting retail electricity prices.

The US is not the only source of noise. In France, the debate on the fiscal effort is heating up as the deadline for presenting a budget bill in Parliament is looming. The discussion has been focusing on tax, but more fundamentally, what is striking is the lack of discussion on how to articulate the fiscal consolidation with a proper growth strategy. In a recent column Gilbert Cette zeroed in on reforming some aspects of the welfare state to lift France's low employment rate and hence its GDP per head. We continue to think that given the adverse effect of uncertainty on private spending decisions, a clear and comprehensive supply-side strategy could more than offset the usual negative effects on demand. The kind of political consensus needed there remains however elusive. France may remain stuck in a slow growth/high deficit configuration, although the absence of external imbalance in the country – as domestic private saving offsets public dis-saving – provides some protection from market pressure. Idiosyncratic saving patterns matter to understand the macro issues across Europe: in France, the state spends too much, and the private sector too little. In Germany, everyone should spend more.

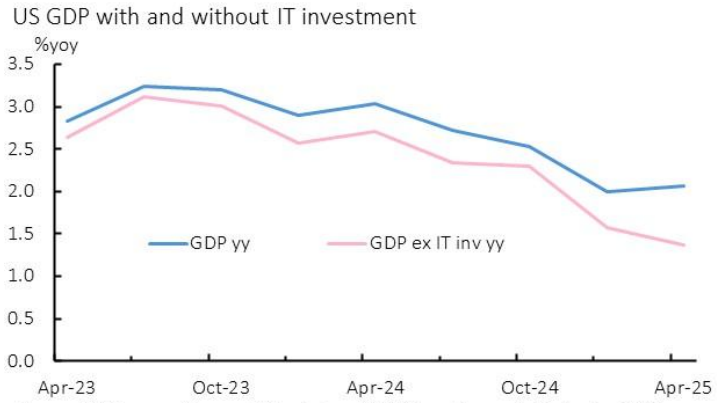
Looking for the US "New Economy"

While the labour market has been softening for months in the US, the overall economic performance remains strong, exemplified by yet another upward revision for Q2 2025 GDP, to 3.8% annualised. Economists are trained to believe that employment is a lagged indicator of cyclical conditions. The apparent reversal of the sequence is – rightly – raising questions. Last week we argued that the rise in uncertainty around a still decent central scenario for aggregate demand could explain why businesses would refrain from labour hoarding. We look in this note into another potential explanation: that US growth is disproportionately driven by sectors from the "the New US Economy" – a term which was widely used in the late 1990s and early 2000s to characterize the emergence of internet-related activities, only this time it would apply to Artificial Intelligence (AI) and cloud computing – which generate very few jobs at the moment.

Investment in information technology (hardware and software together) explained one third of total GDP growth over one year in Q2 2025. This is by far the biggest contribution ever recorded. To put this in perspective, these are still relatively small industries: investment in these sectors accounted for only 5% of GDP in 2024. The acceleration in capex has been massive there, especially for hardware, from +13%yoy in Q1 2024 to 42%yoy in Q2 2025 (from 7.7% to 12.2% for software). Anticipations of tariffs – hardware is massively imported – may explain some of the progression at the beginning of the year, but the further gains in Q2 would suggest that the boom is genuine. The promise of AI and the diffusion of cloud services, powered by government support (e.g. the CHIP act), are finding an impressive translation into national accounts.

This is certainly nice, but since your humble servant is as usual of a pessimistic disposition, he cannot help but notice **that without the contribution from IT investment, US GDP would have grown by a quite modest 1.4% cumulatively over the last 4 quarters** – see Exhibit 1 – a pace visibly below the usually accepted potential GDP pace in the US (1.75%). This fits well with the developments on the US equity market, where IT-related names drive the overall gains in the S&P 500 index.

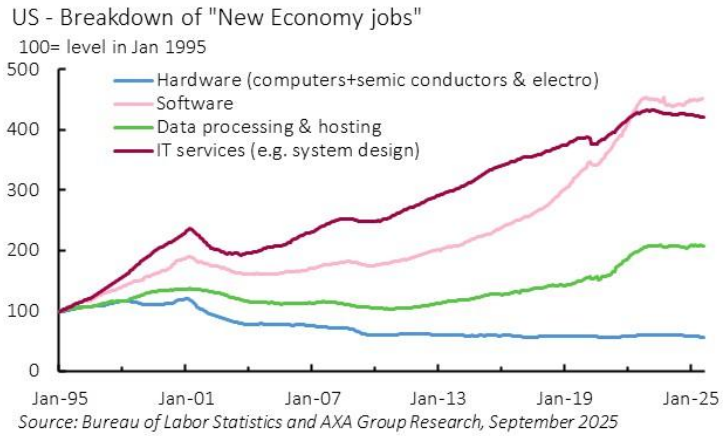
Exhibit 1 – US GDP growth would be below potential without the surge in IT-related investment



Source: US Bureau of Economic Analysis and AXA Group Research, September 2025

Of course, the contribution of high-tech sectors to GDP growth extends well beyond their own boundaries, thanks to the productivity acceleration they should trigger downstream. Yet, for now, they are not generating many direct jobs. In exhibit 2, we look at the employment level in four key IT-related industries since the mid-1990s, when digitalisation started to matter in macroeconomic data. Hardware – including semi-conductors – has been shedding labour for the last 25 years, with – at least so far – no sign of rebound since the big industrial policy push under J. Biden and sustained by D. Trump. Unsurprisingly, data processing employment took off in the last few years, in line with the dissemination of cloud computing and then AI but has remained virtually flat over the last 2 years. Software has had a regular progression over the last 10 to 12 years, but there as well, job creation has stalled recently. Employment in IT services had been maintaining a very steady growth rate after a brief "hiccup" when the "dot.com" bubble burst in the early 2000s, but they have been losing jobs. Those 4 industries taken together have lost 34K jobs since the beginning of 2025.

Exhibit 2 – IT-related jobs flatlining recently



Source: Bureau of Labor Statistics and AXA Group Research, September 2025

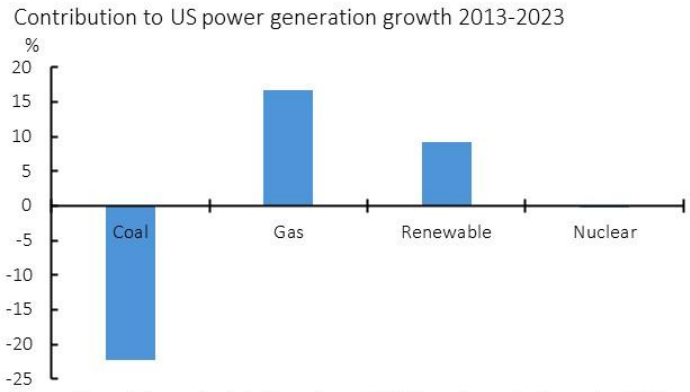
This contrasts with the "New Economy" wave of the late 1990s. The growth-enhancing capacity of the digitalisation wave was overhyped at the time, resulting in an over-valuation of tech companies on the equity market, but there was a visible uptick in productivity while the tech industries brought a non-negligible contribution to overall job creation. Between January 1995 and December 2000, these 4 sectors together created 1.1 million jobs in the US, explaining 8% of total private employment growth.

Given the huge revisions in payroll date recently, we cannot dismiss the possibility that these possibly counter-intuitive developments are a mere statistical glitch, and that final data will unveil a much better picture for tech employment. However, **the current "jobless boom" in tech-related industries may be a macro reflection of a pattern highlighted by a very recent Stanford University study (see link here): jobs for young people are getting scarcer in AI-intensive sectors, while leaving other age groups largely unscathed.** There is little more AI-intensive than the tech sector itself. The paper – based on the data from ADP which covers 25 million employees in the US – argues that *"by July 2025, employment for software developers aged 22-25 declined by nearly 20% compared to its peak in late 2022 (…) a similar pattern holds for computer occupations and service clerks more generally".* The authors' numbers also show that even if older workers are better protected, a deceleration appeared after 2022 across all age groups. **Automation *within* tech allows – at least for now – the sector to grow its output at spectacular pace with a slightly shrinking workforce.**

While the "New Economy" is not creating direct jobs, it can also result in bottlenecks with adverse indirect effects across all consumers. According to the US Energy Information Administration, in 2024 "computing" already accounted for 8% of total commercial electricity consumption. This has fuelled an overall rise in demand for power in contrast with 2 decades of essentially flat consumption. In a very recent piece for Foreign Affairs titled "the coming electricity crisis" (see link here) Brian Deese and Lisa Hanman argue that the current surge in electricity demand has not been met by supply, so that in 2025 "*nine out of 13 power markets in the United States are expected to fall below a critical reliability threshold, which marks the level at which the supply of spare power is considered sufficient to avoid outage".*

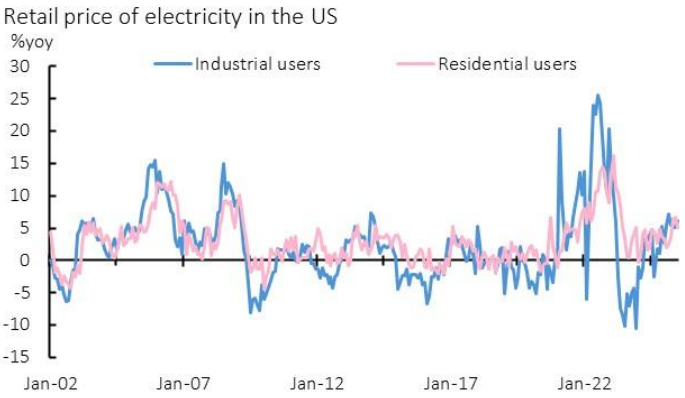
Over the last 10 years, electricity generation has drastically changed in the US – and has become less carbonated. The share of coal has declined dramatically. The load has been taken primarily by gas-fired power stations, but the contribution from renewables has been significant (see Exhibit 3). A crucial issue at this juncture is that there is a massive backlog of gas turbines which is hampering new developments, while scrapping a significant share of the Inflation Reduction Act (IRA) tax credits for renewables will mechanically hinder the capacity of solar and wind solutions to plug the gap. The repeal of the IRA is recent, which makes it difficult to get a macro picture of its effect on investment in renewable energy, but there already have been announcements of projects being frozen. A crucial legal case – a stop-work order from the US administration for the Revolution Wind offshore wind project off Rhode Island, suspended by a federal judge, will probably have to go all the way to the Supreme Court so that we get a full picture. In any case, to deal with the already undeniable lack of investment across all energy sources to cope with rising demand, Deese and Hanman argue in favour of a better use of existing capacity, but in the meantime, retail electricity prices are rising again (see Exhibit 4).

Exhibit 3 – Gas alone could not offset the decline of coal



Source: Energy Information Administration and AXA Group Research, September 2025

Exhibit 4 – Electricity price rising again



Source: Energy Infornation Administration and AXA Group Research, September 2025

In August 2025, the rise in electricity prices over one year has shaven 0.2% off households' purchasing power. This is roughly equivalent to the direct purchasing power gain brought by the drop in oil prices (via motor and heating fuel). This is not massive, but there are bigger electricity tariffs hikes in the pipeline. Separately, the rising cost of electricity for industrial users collides with the US administration's willingness to attract more manufacturing production on the US territory, even if the gap with power prices in Europe for instance remains significant.

Of course, over time the existence of those bottlenecks and price pressure will also ensure that demand for investment in these sectors will remain high and provide underlying impetus to US growth beyond the direct effect of New Economy capex, but for now the spillover effects are ambiguous.

European saving patterns

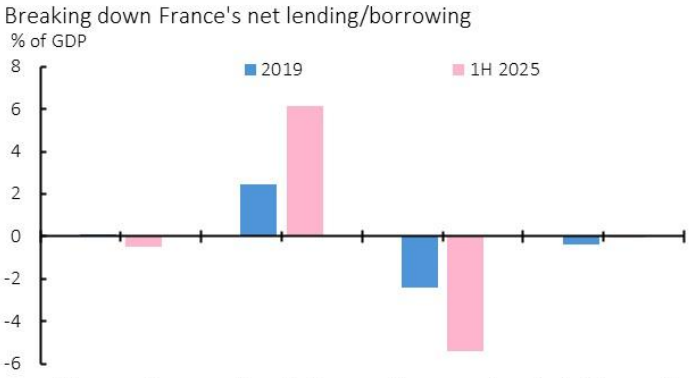
As the deadline for the French 2026 budget bill is looming – parliament needs at least 70 days before year-end to examine it, otherwise it would normally been censured by the Constitutional Court – the public debate has almost exclusively focused on tax. Some of the ideas which forcefully emerged – for instance the "Zucman tax" which would create a 2% levy on the entirety of one's wealth, including professional capital, for those above EUR100mn – have been rejected by the Prime Minister in an interview last week – but **we find it striking that there is so little attention on the way France's fiscal consolidation could complement a growth strategy.** The usual approach would focus on the demand-side: the – nontrivial – risk that fiscal retrenchment would result in a further softening of demand, to the point it could become self-defeating, the decline in tax receipts from slower GDP growth offsetting the adjustment effort. Yet, in the current configuration, we would argue that the supply-side of the economy – and the expenditure side of the fiscal equation deserve at least some attention.

In an Op-ed in Les Echos, Gilbert Cette, currently chairman of the Conseil d'Orientation des Retraites (an independent advisory body which provides the government and parliament with assessments and recommendations on the French pension system) sought to fill that gap. His point is that, a**t the root of France's growing difficulty to sustain its welfare system lies the low level of its GDP per head, well below what is observed in Nordic countries which share with France a preference for extensive social protection nets.** When looking at the sources of the "French GDP per head gap" (17% vis-à-vis Sweden, 25% for Denmark), it is the low level of France's employment ratio (the percentage of those employed among the working age population) which stands out. Gilbert Cette argues in favour of changing rules on minimum income, unemployment benefits, pension and vocational training to raise France's employment ratio to boost growth. We do not think we would betray his view by presenting it as accepting a moderate reduction in the generosity of some aspects of the welfare state as a way to ensure the survival of the main features of the French social contract.

At the end of his Op-Ed, Cette admits that such strategy would only yield results in the long run, and that transitorily, acting on both tax and spending, with some unavoidable side-effects for demand, would be needed. Still, we would argue that in the current circumstances, a "proper" supply-side growth strategy, if it was made fully explicit, could have very limited adverse consequences for demand, even if it entailed some compression in government spending.

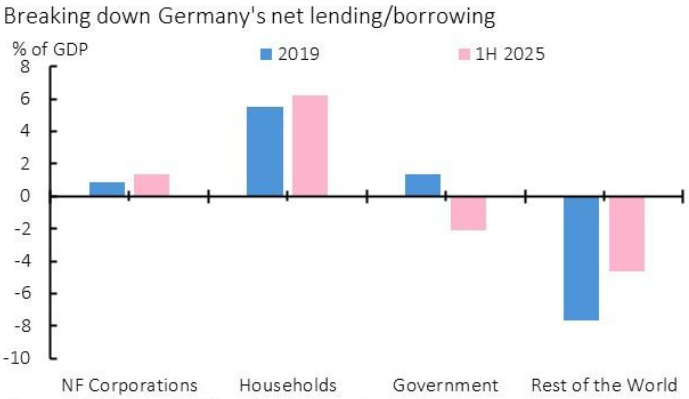
To explore this, **we need to break down France's borrowing requirement from the rest of world – also known as its current account balance. The good news is that France does not exhibit any major *aggregate* imbalance there.** The country's large trade deficit (exports minus imports of goods) is offset by its surplus in services. This is key to understand France's position in international financial markets. At the beginning of the 2010s, most of the European "peripherals" which got into trouble during the sovereign crisis displayed massive current account deficits. This meant that they were constantly forced to attract capital from the rest of the world. As international investors became hesitant to increase their exposure, in the absence of any capacity to adjust the exchange rate, the only solution was a brutal rise in domestic savings – both from the private and public sectors – triggering a collapse in domestic demand. France is not in this situation. Domestic savings are abundant and large enough to fund the domestic investment needs. This is a key source of protection for the country. It does not help solve its growth equation though. **While it has no need on aggregate to borrow from the rest of the world, France's problem is essentially internal. In a nutshell, its government spends too much, and households spend too little.** Exhibit 5 illustrates how today's government "dis-saving" is offset by households' "excess saving", both in terms of level and change since 2019.

Exhibit 5 – In France, the government spends too much, households too little



Source: INSEE and AXA Group Research, September 2025

Exhibit 6 – Everyone should spend more in Germany



Source: D-Statis and AXA Group Research, September 2025

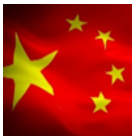
Political instability, and a corollary of a lack of visibility on the macroeconomic strategy of the country, plays a role in French households' saving behaviour. The latest data we have for the Economic Policy Uncertainty index (EPU) for France dates back from August, before the demise of the Bayrou's government. It was however still 0.9 standard deviation above its long-term average, suggesting that even without hard news there is quite a bit of background concern in France, and we expect the next prints to return to the heights of July 2024 (post-dissolution, 3.3 standard deviations above the long-term average) and December 2024 (3.5, fall of the Barnier government). A recent Working Paper from the European Central Bank (ECB), relying on their own measure of uncertainty derived from the ECB's Consumers Expectations Survey finds that a move of one standard deviation in perceived uncertainty reduces consumption by 5%.

The EPU index is quite different from the concept of perceived uncertainty the ECB economists used – since it relies on the occurrence of certain words in the national press rather than how the news flow is actually *felt* by individuals – but **the ECB's findings strongly support the hypothesis that the state of French politics is at least one of the factors behind France's record high savings ratio.**

Symmetrically, the formation of a solid political consensus around a set of growth-enhancing policies focused on the supply-side could lift consumption enough to offset the transitory adverse effect they could have on aggregate demand. We would add that, from a political communication point of view, it is probably more convincing to explain that a reduction in generosity of the welfare system would lift GDP per head in the future and that this is the goal, rather than relying on a "dry" discourse presenting the need to curb spending to balance the books as an end in itself. Such consensus formation is however for now elusive, which suggests that the country could remain stuck in a low growth/high fiscal deficit configuration, even if the absence of an external imbalance would provide some protection against market pressure.

The same breakdown of national saving can help understand the situation in Germany, the Euro area's second "sick man". There, the issue is not so much that some sectors save too much while others spend too much. The problem in Germany is that all the sectors should spend more. In national accounting terms a current account surplus is expressed as the rest of the world displaying a net borrowing requirement, hence the counter-intuitive negative sign on the "rest of the world" column in Exhibit 6. Germany's aggregate net lending position – i.e. being a net exporter of capital to the rest of the world – stood at 4% of GDP last year. Both the household and the corporate sector contributed to this position. It is quite rare to find a business sector in a net lending situation. In principle, corporations should invest more than their own saving would allow by recycling savings from other sectors. The government's own borrowing requirement is small (c.2% of GDP) for a country which has been wallowing in quasi recession for several years.

In these circumstances, someone in Germany needs to "send the signal" that more spending is needed, and that someone can only be the government. Indeed, the business sector can probably be excused for failing to invest given the poor prospects for what has for decades been its main source of traction: extra-European demand, between Chinese deflation and American tariffs. The German government's decision to launch a massive public investment programme could be the necessary spark. The prospect of sustained public demand may spur the business sector into raising its own investment effort. This won't be a walk in the park – the sectors best tuned to respond to public spending are not necessarily those which for decades have been essentially driven by exports – and friction costs around the adjustment will abound, but at least in the German case, the problem does not revolve around a lack of political direction (the coalition has agreed to the new fiscal path), but rather on implementation risks and delays.

Country/Region	What we focused on last week	What we will focus on in next weeks
	• S&P mfg PMI and scvs PMI (Sep) edged down to 52 and 53.9, from 53 and 54.5 • Richmond Fed index (Sep) dropped to -17 from -7 • New home sales (Aug) at 0.8mn from 0.66mn • Durable goods sales (Aug) rose to 2.9% from -2.7% • GDP (Q2) revised higher (+3.8%qoq ann. from 3.3%) on stronger investment and service consumption • Existing home sales (Sep) stable at 4mn • PCE price index (Aug) up to 2.7%yoy from 2.6%	• Consumer confidence (Sep) to edge down from 97.4 • JOLTS Job opening (Aug), watch for hiring cautiousness among firms • ISM mfg and services, PMI and non-mfg PMI (Sep) • Non-Farm payrolls (Sep), expect to recover some from Aug's 22k • Unemp rate (Sep) to stay at 4.3% • Average earnings to stay at 0.3%mom
	• EMU Flash Composite PMIs (Sep) rose to 51.2, boosted by strong German services (52.5, +3.2pt). German manuf stays weak at 48.9 while both Fr Svcs and Mfg were weaker than in Aug and below 50 threshold (resp. 48.9 and 48.1) • Ge Ifo bus climate (Sep) slowed to 87.7 (-1.3pt), expectations also faded • Loans to Non-Fin and households (Aug) rose modestly to 3%yoy (+0.2pt) and 2.5% (+0.1pt) • Flash consumer confidence (Sep) modestly improved to -14.9 from -15.5	• Flash eurozone inflation (Sep) that we forecast at 2.3%yoy for both headline and core. Ge, Fr, Be, Sp and Italy also disclose their flash estimates. • European Commission surveys to complete signals sent by flash PMIs last week • Ge and It retail sales and Fr consumer spending (Aug) • Eurozone unemployment rate (Aug), currently at its lowest level (6.2%) should remain tight • PMI in Spain and Italy (Sep) should be broadly stable from August (info derived from flash Ez flash PMIs)
	• Flash PMIs (Sep) Manu dropped to 46.2, from 47.0; services dropped to 51.9, from 54.2; comp fell to 51.0, from 53.5 • CBI Industrial Trends (Sep) edged up to -27, from -33.	• BoE cons. credit (Aug) likely to edge down from £1.6bn in July • Mortgage approvals (Aug) set to fall from 65.4K in July • Q2 final GDP: no reason to expect material change • Nationwide house prices (Sep) look for no change • DMP price expectations (Sep) stabilisation likely
	• Flash PMIs (Sep) manu dropped to 48.4, from 49.7 in Aug; services broadly unch at 53.0, from 53.1; comp. dropped to 51.1, from 52.0 • Tokyo core CPI (Sep) unch at 2.5%; headline unch at 2.5%	• BoJ summary of opinions • IP prelim (Aug) look for reversal after July's 1.2% drop • Retail sales (Aug) look for rise after July's 1.6% drop • Tankan survey (Q3) looking for signs of tariff and political uncertainty hit • Cons. confidence (Sep) look for impact of election
	• Loan Prime Rate 1y and 5y (Sept) stayed unch at 3% and 3.5%	• Industrial profit (Aug), watch for improvement under "anti-involution" measures • NBS mfg PMI and svc PMI (Sep), watch for further deterioration • RatingDog PMI and svc PMI (Sep)
	• CB: Mexico (25bp cut to 7.5%), Hungary (unch at 6.5%), Czech Republic (unch at 3.5%) • CPI (Aug yoy): Malaysia (1.3%), Singapore (0.5%) • Industrial production (Aug yoy): Singapore (-7.8%), Taiwan (14.4%) • Retail sales (Aug yoy): Poland (3.1%)	• CB: Colombia (unch at 9.25%), India (unch at 5.5%) • CPI (Sep): Indonesia, Poland, South Korea, Turkey • Industrial production (Aug): Brazil, Chile, India, South Korea, Thailand

Upcoming events	
US:	Tue: JOLTs Job Openings (Aug), CB Consumer Confidence (Sep); Wed: ISM Manufacturing PMI (Sep). Thu: Initial Jobless Claims; Fri: Non-Farm Payrolls (Sep), Unemployment Rate (Sep), ISM Services PMI (Sep)
Euro Area:	Mon: EA Economic Sentiment (Sep); Tue: DE Unemployment Rate (Sep), DE Retail Sales (Aug); Wed: EA HCOB Manufacturing PMI Final (Sep), EA Inflation Rate Flash (Sep); Thu: EA Unemployment Rate (Aug); Fri: EA HCOB Services PMI Final (Sep)
UK:	Mon: BoE Consumer Credit (Aug); Tue: GDP Growth Rate Final (Q2), Current Account (Q2); Wed: Nationwide Housing Prices (Sep)
Japan:	Tue: Retail Sales (Aug); Wed: Tankan Large Manufacturer's Index (Q3); Thu: Consumer Confidence (Sep); Fri: Unemployment Rate (Aug)
China:	Tue: NBS Manufacturing PMI (Sep), NBS Non-Manufacturing PMI (Sep)

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