BMO

FALL 2026



BMO BUSINESS OUTLOOK

BMO experts providing insights on the U.S. business and economic outlook.

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Tony Sciarrino
Head, U.S. Commcercial Banking

Confidence Is Translating to Action

The defining theme heading into 2027 is that confidence is beginning to translate into action, but selectively. In our conversations with clients, we are seeing more organizations move ahead with investments that had previously been delayed, while maintaining a disciplined approach to capital, hiring and growth. Economic and geopolitical uncertainty remain part of the backdrop, but many companies are increasingly focused on the opportunities they can control.

The rate environment also continues to influence those decisions. After the Federal Reserve cut rates last year, inflation pressures contributed to renewed rate increases this fall, while longer-term borrowing costs remain elevated. Many middle-market companies have adjusted to the reality that financing costs are likely to remain higher than the ultra-low levels experienced in previous years. Rather than waiting for perfect clarity, business leaders are evaluating opportunities more carefully and moving ahead where the strategic rationale and expected returns are clear.

AI Has Shifted from Curiosity to ROI

Artificial intelligence remains a key area of focus for clients across industries, but the conversation has evolved significantly. What began as exploration and experimentation is increasingly becoming a discussion about measurable returns, operational efficiency and competitive advantage.

Business leaders are asking practical questions: How can AI improve productivity? Where can it create revenue opportunities? How can it help organizations make better decisions or serve customers more effectively?

The impact extends well beyond technology companies. Continued investment in AI infrastructure, including data centers and related facilities, is creating opportunities across a broader ecosystem that includes construction, engineering, industrial services and specialized trades.

Labor availability remains a structural constraint across many markets and industries. Companies continue to face shortages in skilled trades, engineering, healthcare and other specialized roles, increasing the importance of productivity, automation and technology investment.

> “Rather than waiting for perfect clarity, business leaders are focusing on making strategic investments that position their organizations for long-term success.”

For many organizations, the challenge is no longer determining whether AI will be important, but where it can create measurable value and help businesses grow more efficiently with the workforce they have.

Strategic Investments Continue Despite Higher Costs of Capital

Our clients continue to pursue investments in equipment, technology, automation and supply-chain resilience. Many businesses are also evaluating opportunities to strengthen domestic operations and diversify supply chains to reduce exposure to geopolitical and operational risks.

Demand for financing remains healthy as companies seek capital to support these initiatives. At the same time, higher borrowing costs are encouraging a greater focus on execution and return on investment.

Years of exceptionally low interest rates gave businesses more flexibility to absorb missteps. Today’s environment is different. Higher financing and operating costs are

putting greater pressure on companies to protect margins, improve productivity and make each investment count.

As a result, leadership teams are placing greater emphasis on discipline, accountability and data-driven decision-making. Capital is still being deployed, but investments are being evaluated more carefully to ensure they can generate measurable value. The result is not less investment activity, but more thoughtful investment activity.

Commercial Real Estate Remains in Transition

The commercial real estate market is continuing to adjust to a higher cost of capital. Elevated long-term borrowing costs are still influencing valuations, debt service and transaction economics, which could keep activity uneven in 2027. Financing remains available for quality opportunities, but lenders, sponsors and investors are applying greater underwriting and capital discipline. Sponsor experience, asset quality, cash flow and appropriate leverage will remain particularly important as the market continues to reset.

At the same time, stronger fundamentals in select asset classes are creating opportunities for investors and developers prepared to navigate a complex environment. Many clients are finding them through strategic acquisitions, recapitalizations and targeted investments, though the recovery is likely to stay uneven across property types and markets.

M&A Activity Reflects Growing Confidence

We continue to see healthy interest in mergers and acquisitions as companies pursue growth, expand capabilities and position themselves for future opportunities. Transaction pipelines remain active, supported by significant amounts of private capital seeking investment opportunities.

However, higher financing costs have raised the bar for prospective transactions. Buyers are conducting more rigorous diligence and taking a more selective approach to acquisitions. Valuation expectations have become more grounded in business fundamentals and long-term performance.

This environment can create challenges, but it also supports a healthier and more sustainable transaction landscape. Companies that are well-positioned strategically and financially continue to find opportunities to execute deals that enhance shareholder value and support growth objectives.

Playing Offense in 2027

As we look ahead, financing activity, capital investment plans and M&A pipelines all point to continued opportunities for growth. Businesses that have strengthened their understanding of key performance indicators, invested in better data and maintained financial flexibility are entering the year from a position of greater confidence.

That does not mean volatility will disappear. Geopolitical developments, inflationary pressures and market disruptions will continue to influence business decisions. The midterm elections have also changed the political landscape, creating new questions around the direction of tax, trade, regulatory, energy and other policies that matter to businesses. As those priorities take shape, companies will need to evaluate how potential changes could affect their operations and long-term investment plans. Uncertainty remains a feature of the environment, not a temporary obstacle.

Waiting for uncertainty to disappear is not a strategy.

The companies best positioned to outperform will be those that understand their risks, measure investment outcomes effectively and remain prepared to act when opportunities emerge. In an increasingly complex environment, success will belong to organizations that balance discipline with decisiveness and continue to invest in their long-term growth while others remain on the sidelines.

National



Scott Anderson
Ph.D., Chief U.S. Economist

U.S. economic growth has remained remarkably resilient in 2026 despite the war with Iran and the resulting energy-price shock. GDP growth averaged a solid 2.4% in the first half of the year and is forecast to accelerate to 3.3% in the third quarter before moderating to roughly 2.0% in the fourth. Annual GDP growth is projected at 2.3% in both 2026 and 2027, matching the pace recorded in 2025.

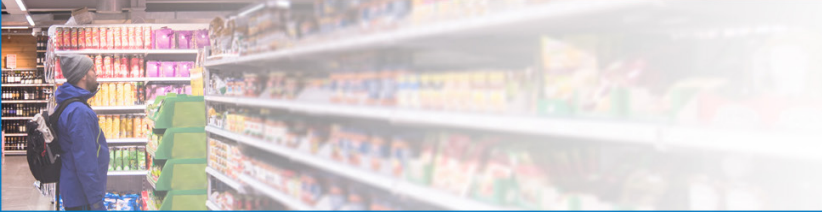
A key driver of that resilience has been the surge in AI-related investment, which is expected to remain a meaningful support for growth in 2027. The AI buildout is boosting business equipment spending at the fastest pace since 2010, fueled by investment in GPUs, memory chips, servers, networking equipment, data centers, and energy infrastructure. We forecast real equipment spending growth of 14.2% in 2026 before moderating to a still-healthy 5.0% in 2027. The six largest hyperscalers have planned more than $800 billion in capital expenditures in 2026 and pledged nearly $1 trillion annually over the next four years. Relative to the size of the economy, planned AI investment over the next five years is expected to exceed major infrastructure buildouts of the past, including the dot-com fiber expansion, the electrical grid, the interstate highway system, and even the railroads of the late 19th century. This wave of investment is already supporting productivity and economic growth and should drive further gains as AI adoption broadens.

Corporate profits remain another source of strength. Real profits have posted double-digit growth over the past year and reached a record share of GDP in the second quarter. Rising equity values and household wealth should support consumer spending through 2027 despite elevated inflation and modest real disposable-income growth. Beneath the headline strength, however, consumer demand remains increasingly bifurcated, with higher-income households driving a disproportionate share of spending while many others continue to face affordability pressures.

The Fed's rate cuts last year helped stabilize the labor market, keeping unemployment near full-employment levels. A low-hire, low-fire environment is expected to persist in 2027 as an aging population and changes in immigration policy continue to limit labor-force growth.

> The AI buildout is boosting business equipment spending at the fastest pace since 2010, fueled by investment in GPUs, memory chips, servers, networking equipment, data centers, and energy infrastructure.

Meanwhile, resilient demand and a prolonged energy supply shock have complicated the inflation outlook, prompting the Fed to resume rate hikes in September. We expect another increase in December, followed by a pause in 2027 that keeps long-term interest rates higher for longer. Even so, inflation is unlikely to return to the Fed's 2% target until 2028. Our baseline view is that businesses should prepare for another year of resilient, but more balanced, domestic demand as inflation gradually moderates.



Food & Beverage



Todd Giles
Managing Director & Group Head
Food, Consumer & Agribusiness

The food and beverage industry enters 2027 after several years of navigating inflation, supply chain disruptions and evolving consumer spending patterns. In our conversations with clients, the tone is changing. Management teams are making deliberate decisions about where to invest for future growth. Three forces will shape those decisions in the year ahead.

The consumer is changing, not just cutting back. Affordability remains front and center. Households continue to seek value, private label products are gaining share, and value-oriented foodservice concepts are outperforming many premium offerings. The more important shift, however, is not how much consumers spend, but what they choose to buy.

Growing adoption of GLP-1 medications, combined with a broader focus on health and wellness, is influencing portion sizes, snacking habits and alcohol consumption. Demand is increasing for protein-rich products, fiber and functional ingredients, creating opportunities for companies that can quickly adapt to changing preferences. Businesses that reformulate products, innovate and align portfolios with evolving consumer needs will be best positioned to capture growth opportunities. Consumers may face sustained food inflation in FY2027 as rising fuel costs, geopolitical disruptions, elevated fertilizer prices, Super El Niño-related weather impacts, and higher diesel expenses increase pressure across agricultural supply chains.

Volatility is now a permanent feature. Trade policy shifts, supply chain disruptions, commodity volatility and energy costs have reinforced a new reality for operators: resilience is now a competitive advantage. Some relief may emerge in protein markets as cattle inventories gradually rebuild.

The industry's response is increasingly structural rather than temporary. Companies are diversifying sourcing strategies, building greater flexibility into supply chains, and investing in automation and productivity enhancements to mitigate labor shortages and improve operating efficiency.

“The more important shift, however, is not how much consumers spend, but what they choose to buy.”

Capital deployment is back on the agenda. Lower public market valuations across many packaged food companies are creating opportunities for strategic acquisitions. Larger consumer packaged goods companies are focused on acquiring emerging brands with proven growth, differentiated products and scalable platforms, while divesting slower-growth businesses to reshape their portfolios. At the same time, a backlog of aging private equity investments is expected to drive increased exits and divestitures across the sector. Higher financing costs continue to favor larger operators that can realize manufacturing, distribution and procurement synergies, supporting premium valuations for innovative businesses with demonstrated consumer demand and sustainable growth.

The companies best positioned for 2027 are those that have used the past several years to strengthen operations, build resilience and maintain financial flexibility.



Manufacturing and Industrials



Jon Ewing
Managing Director
Head, U.S. Industrials

Industrial companies are entering 2027 with growing confidence, healthy balance sheets and a renewed willingness to invest. Yet in our conversations with clients, a clear divide is emerging between markets benefiting from structural growth drivers and those still awaiting a full recovery.

Where growth is strongest. Demand tied to aerospace and defense, power generation, grid modernization, data center construction, electrical equipment and industrial services remains robust. These markets are benefiting from multi-year investment cycles, rising power demand, and increased focus on national security and supply-chain resilience. Companies serving these markets continue to report strong backlogs, expanding capital spending and elevated acquisition interest.

Where recovery is slower. Packaging, building products and parts of the chemicals sector are still working through soft demand. Persistent cost pressures, higher financing costs and housing affordability challenges continue to weigh on residential construction and consumer spending. While inventories have largely normalized, demand has yet to accelerate meaningfully in segments most exposed to consumer spending and residential activity.

Productivity is the answer to the labor gap. Persistent shortages across the skilled trades, engineering, maintenance and transportation continue to limit capacity and growth. Rather than relying on hiring alone, manufacturers are investing in automation, robotics and AI to increase output and protect margins. AI is moving from experimentation to implementation, supporting predictive maintenance, production planning, scheduling and inventory management.

Trade is reshaping the map. Tariffs and trade policy have turned manufacturing and supply chain footprint decisions into a board-level priority. Clients are reassessing sourcing, production and distribution footprints, weighing the benefits of reshoring and nearshoring against cost, flexibility and execution risk. Many are intentionally building redundancy into supply chains, accepting higher costs in exchange for greater resilience and continuity.

Capital deployment is returning. Following several years of elevated uncertainty, companies are again evaluating acquisitions, capacity expansions and geographic growth opportunities. Strategic buyers continue to pursue technology, capacity and complementary capabilities, while private equity-backed platforms remain focused on scale, diversification and operational synergies.

> A clear divide is emerging between markets benefiting from structural growth drivers and those still awaiting a full recovery.

Industrial activity should broaden in 2027, though growth is likely to remain strongest in markets supported by infrastructure investment, rising power demand and defense spending. The companies best positioned to outperform will be those that balance capital discipline with continued investment in productivity, technology and supply-chain resilience.

Technology and AI



Andreas Bubenzer-Paim
Managing Director
Head of Technology Banking

Artificial intelligence remains the defining force across the technology sector and increasingly across the broader economy. In our conversations with clients, the discussion has shifted from AI's capabilities to its economics. As organizations move beyond experimentation, the key questions are no longer what AI can do, but what it costs, what returns it can generate and how to finance the infrastructure required to support it.

The infrastructure buildout is the story beneath the story. Access to power and compute capacity is emerging as a key determinant of AI growth, creating significant investment opportunities across data centers, energy, grid infrastructure and cooling technologies. Financing needs across the ecosystem continue to grow as organizations invest to meet rising demand. At the same time, rapid advances in computing are shortening hardware life cycles and fueling a secondary market for GPUs, where prior-generation chips remain effective for inference and production workloads.

AI's business challenge is monetization. Traditional software providers are embedding AI into their products while pure-play AI companies compete for market share. The challenge is developing pricing models that align customer value with often-variable compute costs. While the industry is experimenting with approaches ranging from per-seat and usage-based pricing to outcome-based models, a sustainable framework has yet to emerge. Solving that equation will be a key priority in 2027.

Discipline is replacing experimentation. As organizations move from pilot projects to scaled deployment, spending discipline is becoming increasingly important. Companies are placing greater scrutiny on AI investments, measuring returns more closely and limiting tool proliferation. At the same time, as more proprietary and customer data flows through AI-enabled applications, cybersecurity is becoming an essential element of technology strategy and risk management.

Capital is following the buildout. Investors are increasingly backing the infrastructure behind AI, from semiconductors and computing capacity to systems that enable deployment at scale. Capital markets remain supportive, but tighter financial discipline is elevating the importance of profitability, cash flow and efficient growth. Investment remains concentrated in AI, cybersecurity, infrastructure software, data analytics, fintech and semiconductors.

> As organizations move beyond experimentation, the key questions are no longer what AI can do, but what it costs, what returns it can generate and how to finance the infrastructure required to support it.

The winners in 2027 will be the companies that can prove AI pays for itself. BMO combines dedicated technology expertise with the capital of one of North America's largest banks to help clients fund what comes next, from software and semiconductors to the power and data centers behind AI.

	2026				2027				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2025	2026	2027
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.5	2.2	3.4	2.0	2.3	2.3	2.2	2.2	2.3	2.4	2.4
Consumer Price Index (y/y % chng)	2.7	3.8	3.5	4.0 ↓	3.8	2.9	3.0	2.4 ↑	2.7	3.5	3.0
Unemployment Rate (percent)	4.1	4.3	4.1	4.1 ↓	4.2	4.2	4.2	4.2	4.3	4.2	4.2
Housing Starts (mlns : a.r.)	1.42	1.35	1.29	1.28	1.32	1.33	1.33	1.34	1.36	1.33	1.33
Current Account Balance ($trlns : a.r.)	-0.85	-0.98	-1.38	-1.44	-1.48	-1.50	-1.52	-1.53	-1.18	-1.16	-1.51
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	3.63	3.63	3.71	3.96	4.21	4.38	4.38	4.38	4.21	3.73	4.33
3-month Treasury Bill	3.69	3.73	3.95	4.20 ↓	4.25 ↓	4.35	4.35	4.35	4.21	3.90	4.30
10-year Note	4.20	4.42	4.76	5.00 ↓	4.95 ↓	4.95 ↓	4.80 ↓	4.70 ↓	4.29	4.60	4.85 ↓
EXCHANGE RATES (average for the quarter)											
US¢/C$	72.9	72.3	71.5	71.1	71.9	72.5	73.2	73.8	71.6	71.9	72.8
C$/US$	1.43	1.38	1.40	1.41	1.39	1.38	1.37	1.35	1.40	1.39	1.37
¥/US$	157	159	159	157	157	156	156	155	150	158	156
US$/Euro	1.17	1.16	1.15	1.11	1.12	1.13	1.14	1.15	1.13	1.15	1.13
US$/£	1.35	1.34	1.34	1.32	1.33	1.33	1.34	1.35	1.32	1.34	1.34



State/Regional Trends

(y/y % change unless otherwise noted)

				Forecasts	
	2023	2024	2025	2026	2027
GDP Growth (%)					
Arizona	3.2	4.0	1.5	1.9	2.5
California	1.4	3.4	3.5	2.9	2.5
Florida	4.3	3.0	2.8	2.9	3.0
Illinois	1.9	2.4	2.6	2.4	2.4
Indiana	0.9	4.0	1.9	1.3	1.9
Minnesota	0.9	0.8	0.7	2.2	2.6
Pacific Northwest	3.1	3.7	2.7	2.1	2.4
Texas	9.2	3.7	2.8	2.3	2.7
Utah	2.8	5.0	2.7	3.1	3.1
Wisconsin	2.7	2.5	0.8	1.5	2.2
National	2.9	3.0	2.3	2.4	2.4
Jobless Rate (%)					
Arizona	3.7	3.7	4.3	4.8	4.7
California	4.7	5.3	5.5	5.3	5.2
Florida	2.9	3.4	3.9	4.6	4.3
Illinois	4.5	5.0	4.5	4.9	4.6
Indiana	3.4	4.0	3.7	3.4	3.4
Minnesota	2.8	3.1	3.8	4.5	4.5
Pacific Northwest	4.0	4.4	4.7	4.7	4.6
Texas	4.0	4.1	4.2	4.4	4.4
Utah	2.7	3.3	3.5	3.6	3.6
Wisconsin	2.8	3.0	3.2	3.3	3.2
National	3.6	4.0	4.3	4.2	4.2

Sources: BMO Economics, BEA, BLS/CAEDD, FRB St. Louis, Census, CAR

Arizona



Basil Zaidi
Managing Director
Diversified Industries Group
Southwest

Arizona middle-market companies continue to demonstrate resilience despite ongoing economic uncertainty. While many clients entered 2026 cautiously, business sentiment has improved modestly throughout the year as companies have adapted to a higher-rate environment and gained greater visibility into customer demand. Even so, most management teams remain disciplined in their approach to hiring, capital spending, and strategic investments.

One trend we continue to observe across Arizona is sustained activity in sectors tied to population growth and long-term economic development. Construction, infrastructure, manufacturing, technology, and business services remain areas of relative strength. Arizona also continues to benefit from its emergence as a semiconductor and technology hub, with significant investments by TSMC and Intel, alongside ongoing data center and infrastructure development, supporting job creation and broader economic growth across the state.

At the upper end of the middle market and within the mid-corporate segment, financing activity has remained active despite broader economic uncertainty. We have seen meaningful amend-and-extend and refinancing activity as borrowers capitalize on a highly competitive banking environment. Banks continue to actively pursue high-quality commercial relationships, creating attractive financing opportunities for well-performing companies. While this activity has supported overall loan demand, many borrowers remain selective when it comes to taking on new debt to fund large-scale expansion projects or acquisitions.

Across the broader middle market, companies remain focused on operational efficiency, profitability, and financial flexibility. Hiring continues, but it is generally targeted toward critical roles rather than broad workforce expansion. Capital expenditures are being evaluated carefully, with businesses prioritizing investments that enhance productivity, improve capacity utilization, and strengthen long-term competitiveness.

Looking ahead to 2027, labor availability, rising operating costs, and the pace of technology adoption are likely to remain key considerations for many businesses. As a result, we are seeing growing interest in automation, artificial intelligence, and other technologies designed to improve efficiency and help address workforce constraints. Companies that successfully balance disciplined growth with strategic investment in innovation appear best positioned to capitalize on opportunities while navigating potential economic headwinds.

> “Construction, infrastructure, manufacturing, technology, and business services remain areas of relative strength.”

Overall, Arizona businesses remain cautiously optimistic. While uncertainty persists, construction, infrastructure, manufacturing, technology, and business services remain areas of relative strength. While uncertainty persists, many companies continue to operate from a position of financial strength and appear well positioned to pursue growth opportunities as market conditions evolve.

Arizona



Priscilla Thiagamoorthy
Senior Economist

Arizona's economy continues to expand, though growth has moderated from the state's post-pandemic surge and become more uneven across sectors. Real estate, information, construction-related activity and advanced manufacturing investment remain key sources of support, while softer retail activity, transportation, and a cooling labour market are acting as offsets.

Payroll growth remains positive but modest, the jobless rate has risen above the national average, and the labor force has contracted. Employment gains have become increasingly narrow, with education and health services serving as the state's primary job engine amid continued population growth and aging demographics. Meanwhile, financial activities, leisure and hospitality, and manufacturing have lost jobs since the start of the year. The weakness in manufacturing is especially striking given Arizona's outsized semiconductor and advanced manufacturing investment boom, suggesting that much of the activity remains concentrated in capital spending and construction, for now. But, that pipeline remains the state's most significant long-term advantage. TSMC's semiconductor complex in Phoenix is already producing advanced chips, with additional fabrication, packaging, and research facilities planned. The expansion is expected to support significant employment growth across construction, advanced technology, and supplier networks over time. However, many of those economic benefits will take years to fully materialize.

Arizona's housing market is cooling and becoming increasingly buyer-friendly. Rising inventory has reduced competition, prompting sellers to cut prices more frequently and offer concessions to complete transactions, while giving buyers greater negotiating power. As a result, the Phoenix market has moved closer to balance. However, affordability remains a significant challenge, with mortgage rates and home prices still elevated relative to local incomes. Looking ahead, Arizona's housing challenge is increasingly less about demand and more about supply. Expanding the range of housing options, including townhomes, condominiums and build-to-rent communities, while streamlining the development process, will be critical to sustaining population growth, attracting workers and supporting the state's expanding industrial and technology sectors.

> Real estate, information, durable goods manufacturing, and finance are providing support, while softer retail activity and transportation are acting as offsets.

Arizona's demographic advantage is also becoming less pronounced. The state remains a major migration destination, but population growth is slowing as affordability challenges intensify, birth rates decline, immigration patterns change and more baby boomers retire. An aging population will support healthcare demand while contributing to longer-term workforce constraints.

Looking ahead, Arizona is likely to enter 2027 with modest growth. Semiconductor and advanced manufacturing investment, healthcare demand, continued migration, and rising household incomes should provide support. However, weak hiring, housing affordability pressures, slower labor-force growth, water constraints, and uncertainty surrounding trade policy and changes in labor-force growth.



Robert Luce
Diversified Industries Group
Pacific Region Head

AI is reshaping Northern California's economy well beyond the technology sector. Across the Bay Area, business leaders are moving from exploration to implementation, evaluating how AI can improve productivity, drive growth and strengthen competitive advantage. Companies are increasingly deploying AI across customer service, risk management and workflow automation, while investment in data centers, semiconductors, cloud infrastructure, networking and AI-related hardware remains a significant source of economic activity. The effects are extending well beyond technology, creating opportunities across energy, construction, manufacturing and professional services.

The region's growth story also extends beyond Silicon Valley. Healthcare continues to benefit from facility expansion, digital innovation and demographic demand, while Sacramento and the Central Valley are seeing sustained investment in logistics, warehousing, industrial development, agriculture and food production. Modernization initiatives are creating opportunities in food processing, cold storage, packaging, automation, water management and distribution infrastructure as businesses strengthen supply chains and improve operating efficiency.

Across industries, productivity has become a central focus. Companies are seeking ways to increase output without significantly expanding headcount, leveraging technology and process improvements to address ongoing labor constraints. Hiring remains concentrated in healthcare, logistics, engineering, skilled trades, and infrastructure-related occupations, while technology and process improvements help address other labor needs. Business confidence has improved modestly, but investment decisions remain selective. Clients favor projects with measurable returns and continue to protect liquidity and financial flexibility.

The outlook is less favorable for older office properties, traditional manufacturing, and portions of the consumer economy. Office demand remains concentrated in high-quality Class A assets, while Class B and C properties continue to face weak demand and vacancy pressure. Manufacturers are contending with operating costs, labor constraints, and trade uncertainty. Restaurants and retailers face cost-conscious consumers and tight margins, although higher-end retail and luxury businesses have demonstrated greater resilience.

> Business confidence has improved modestly, but investment decisions remain selective.

Financing activity remains healthy, particularly for acquisitions, equipment, industrial projects, healthcare expansion, supply-chain modernization, and AI infrastructure. Heading into 2027, Northern California's opportunities span the Bay Area's technology ecosystem, Sacramento's logistics and industrial development, and the Central Valley's agricultural and food processing base. Healthcare and demographic-driven demand offer additional support. Trade uncertainty, labor availability, operating costs, office vacancies, and consumer margin pressure remain important risks as businesses pursue targeted investment rather than broad expansion.

Northern California



Scott Anderson
Ph.D., Chief U.S. Economist

Northern California remains the innovation and growth engine of California's economy. Bay Area hyperscalers are planning to spend more than $800 billion in capital expenditures in 2026 and nearly $1 trillion annually over the following four years. Though new data center moratoriums and possibly new AI regulation will slow the capex growth pace somewhat next year, AI is still expected to drive significant productivity gains and economic growth. Risks related to labor market disruption, income inequality, cybersecurity threats and AI model misuse continue to contribute to economic and financial uncertainty.

Nowhere are these opportunities and risks more evident than in the Bay Area. The San Francisco-Oakland-Fremont MSA recorded nonfarm payroll growth of 0.5% year over year through September, above the national average of 0.4% but below California's 0.7% pace. High living and business costs, coupled with structural workforce changes in the information, financial services and manufacturing sectors, have contributed to sustained job losses in those industries. At the same time, the region's labor force declined 2.1% from a year earlier, marking the largest contraction since the pandemic.

The reduction in labor supply has helped tighten labor market conditions, with the unemployment rate declining from 4.5% in December to 4.2% in September, in line with the national average. Job growth over the past year has been concentrated in education and health care, leisure and hospitality, and government. Silicon Valley has outperformed the broader Bay Area, with employment rising 1.8% year over year, led by gains in construction, health care, and leisure and hospitality.

Sacramento's labor market has been somewhat stronger than both the Bay Area and California overall, with employment increasing 0.9% from a year earlier. Health care, leisure and hospitality, and trade and transportation have driven much of the growth. While Sacramento's 4.9% unemployment rate remained above the national average in September, it improved from 5.2% at the end of 2025.

> "Surging technology equity valuations, along with anticipated IPO activity, continue to support home values despite worsening affordability."

Housing affordability remains a significant constraint on Bay Area in-migration and labor force growth. Surging technology equity valuations, along with anticipated IPO activity, continue to support home values despite worsening affordability. According to the California Association of Realtors, only 24% of Bay Area households could afford a median-priced single-family home in the third quarter of 2026, compared with 39% nationally.

Bay Area home prices were down a modest 1.9% from a year earlier in September somewhat above the 1.7% California average, as strong price gains in San Francisco and San Mateo more than offset declines in Solano and Santa Clara counties. Higher-end home prices have accelerated, while building permits surged since the summer and averaged roughly 190% above year-earlier levels over the most recent three-months.

Southern California



Robert Luce
Diversified Industries Group
Pacific Region Head

Southern California businesses enter 2027 focused on growth, but the region is increasingly experiencing productivity-led growth rather than broad-based job expansion. Clients are applying greater discipline to capital allocation, hiring, and investment decisions, prioritizing productivity, operational efficiency, liquidity, and cash flow while continuing to evaluate strategic acquisitions and other growth opportunities. AI and automation have moved from experimentation to active investment, enabling companies to support growth without significantly increasing headcount. Treasury management, working capital optimization, refinancing, and broader banking relationships also remain important as clients seek flexibility in an uncertain rate and cost environment.

Aerospace and defense continue to be one of the region's strongest sectors, supported by long-term aircraft backlogs, increased defense spending, and demand for maintenance, repair, and replacement programs. Additional strength is evident across technology, healthcare, business and industrial services, AI-related infrastructure, distributed power, utilities, and advanced manufacturing. Investment in electrification, grid resiliency, cooling technologies, and precision manufacturing is creating opportunities across the broader Southern California ecosystem. For data centers and other power-intensive projects, however, grid capacity, interconnection timing, cooling, water availability, and permitting are becoming critical constraints and may shift investment toward power-advantaged locations.

At the same time, consumer-facing, import-reliant, construction, commercial real estate, transportation, and logistics businesses continue to face pressure. Tariff uncertainty and elevated labor, energy, insurance, fuel, and material costs are challenging margins, particularly for companies unable to pass increases through to customers. Consumer spending has remained relatively resilient, especially among higher-income consumers and premium brands, but businesses remain alert to the risk of softer demand.

Overall business sentiment is cautious but constructive. Hiring has moderated, with companies focused on retaining key talent and selectively adding strategic roles. Capital spending remains targeted toward automation, technology, acquisitions, and areas with visible long-term demand. Financing and M&A activity have increased, although transactions are taking longer to close as buyers and sellers work through valuation expectations.

> Data center development itself may be more selective as power availability and interconnection timelines increasingly shape site decisions.

Heading into 2027, the strongest opportunities include aerospace and defense, healthcare innovation, AI-enabled productivity, power and cooling infrastructure, strategic acquisitions, refinancing, hedging, treasury solutions, and early succession planning with founder- and family-owned businesses. Data center development itself may be more selective as power availability and interconnection timelines increasingly shape site decisions. Key risks include persistent inflation, higher financing costs, tariff and trade uncertainty, labor constraints, valuation gaps, housing affordability and workforce mobility, permitting delays, rising insurance and energy costs, and continued pressure on consumer spending and margins.

Southern California



Scott Anderson
Ph.D., Chief U.S. Economist

Southern California's labor market has delivered mixed results over the past year. Job growth has been strongest in San Diego (+1.2%), outperforming both California and the national average, while the broader Los Angeles metro area and Orange County posted more modest gains of roughly 0.5%, in line with national trends.

The Los Angeles metro area recorded solid job gains in education and health care, leisure and hospitality, and other services. However, these gains have been partially offset by job losses in information, financial services, manufacturing, government, and professional and business services resulting in an uneven labor market. Consolidation in the film and television industry, along with cautious hiring in media, financial services, technology, and professional services, remains a significant headwind. AI-related workforce uncertainty has contributed to hiring restraint across several of these sectors. Higher tariffs, elevated interest rates and rising input costs are also weighing on manufacturers, construction firms and transportation companies. The change in congressional control following the midterm elections also introduces the potential for shifts in trade policy heading into 2027. Any easing of tariff-related pressures would represent an upside for the region's exporters, manufacturers, ports and transportation sectors, while continued uncertainty could weigh on investment and planning decisions.

Even so, labor market conditions in Los Angeles have tightened, with the unemployment rate falling to 4.6% in September from 5.3% at the end of 2025. The primary driver has been a contraction in labor supply, as the region's labor force declined 2.3% from a year earlier, reflecting a combination of retirements, changes in immigration and migration patterns, and the region's high cost of living. This marks the largest decline in the Los Angeles labor force since the pandemic.

Southern California's housing market has also been mixed. Home price appreciation was strongest in San Bernardino County (+6.2%), San Diego (+6.1%), and Orange County (+5.6%). More moderate gains of 1.2% to 3.3% were recorded in Los Angeles counties, while Riverside and Imperial counties experienced price declines. Across Southern California, home prices increased 3.0% from a year earlier, although Los Angeles-area appreciation lagged at 1.2%.

> "Limited existing-home inventory continues to support new construction, as many homeowners remain reluctant to sell and give up historically low mortgage rates."

Southern California homebuilders generally increased permitting activity over the summer despite higher financing and construction costs. Limited existing-home inventory continues to support new construction, as many homeowners remain reluctant to sell and give up historically low mortgage rates. Permit activity softened in September though as 30-year mortgage rates jumped above 7.0% with Los Angeles permits running 5.3% below year-earlier levels and San Diego permits down 8.7%.

Overall, Southern California's outlook remains one of moderate growth. While labor force contraction and industry-specific headwinds continue to weigh on portions of the economy, stable housing demand and steady employment gains in key sectors should help support continued expansion in 2027.

Outlook from the ground

Client Perspective

A client in the energy and power generation industry has discussed a project pipeline exceeding $1 billion tied to AI and data center development, illustrating both the scale of potential investment across Southern California and the importance of power availability, interconnection timing, and permitting in determining which projects ultimately proceed.

Clients in the healthcare and packaging industries have cited fuel and transportation costs as ongoing sources of margin pressure, providing a practical example of the cost pressures businesses are navigating.

Florida



Chris McDaid
Diversified Industries Group
Southeast Region Head

Florida enters 2027 from a position of strength. With a $1.8 trillion economy that now ranks among the largest in the world, the state continues to benefit from strong population growth, business migration and a favorable tax and regulatory environment. Those advantages, combined with Florida's role as a destination for both talent and capital, continue to support economic expansion across the state. In the most recent IRS migration data, Florida gained more than $20 billion in adjusted gross income from residents relocating from other states, underscoring the state's continued ability to attract businesses, entrepreneurs and high-income households.

Businesses remain cautiously optimistic. Rather than delaying decisions amid ongoing uncertainty, many management teams have adjusted to an environment where volatility is a permanent feature of doing business. Growth initiatives and capital investments continue to move forward, but with greater discipline and a heightened focus on liquidity, flexibility and downside protection. Companies are increasingly prioritizing productivity, margin preservation and disciplined expense management as they navigate inflationary pressures, higher financing costs and evolving trade dynamics.

Technology, automation and artificial intelligence play a growing role in those efforts. Across industries, companies are evaluating how digital tools can improve efficiency, optimize operations and support growth without significantly increasing headcount. Investment remains focused on projects with measurable business outcomes and clear returns.

Commercial real estate development remains active, although higher borrowing costs and tighter access to equity capital are creating challenges for some projects. M&A activity has moderated from peak levels, but strategic buyers continue to pursue opportunities where valuations and long-term growth prospects align.
One of Florida's most significant challenges remains housing affordability. Home values and rents have risen sharply since 2019, creating workforce pressures in many markets across the state. While initiatives such as the Live Local Act and innovative public-private housing partnerships are helping increase supply, housing costs remain a key consideration for employers seeking to attract and retain talent.

Looking ahead, Florida appears well positioned to continue outperforming the national economy. Ongoing investments by businesses, healthcare systems and higher education institutions are helping diversify the state's economic base and create new sources of growth. As companies continue to expand operations and invest in talent, infrastructure and innovation, Florida's outlook remains favorable.

> Rather than delaying decisions amid ongoing uncertainty, many management teams have adjusted to an environment where volatility is a permanent feature of doing business.

The businesses positioned for success in 2027 will be those that maintain financial flexibility while investing strategically in growth opportunities. In a state that continues to attract people, capital and corporate investment, organizations that pair operational discipline with a long-term perspective will be best positioned to capitalize on Florida's continued momentum.

Florida



Michael Gregory
CFA, Deputy Chief Economist

Florida was one of only four states to post at least 3.0% real GDP growth in the year ending 2026 Q2. While the state has long been among the nation's growth leaders, its recent performance is notable because it comes amid slower population growth and softer tourism activity. Increasingly, growth is being supported by innovation-oriented industries, including aerospace, clean technology, information and communications technology, and life sciences, many of which are benefiting from advances in AI.

Population growth has long been a key driver of Florida's economy, but it has slowed markedly, representing the state's weakest pace in roughly eight decades. Changes in immigration and migration patterns are contributing to that slowdown, while housing affordability has become less compelling than during the state's pandemic-era boom.

> Population growth has long been a key driver of Florida's economy, but it has slowed markedly, representing the state's weakest pace in roughly eight decades.

Against this backdrop, Florida's real estate sector has generally underperformed national trends, reflecting affordability pressures tied to elevated home prices, mortgage rates and insurance premiums, as well as the effects of overbuilding in some markets. More recently, however, housing activity has begun to improve, even though inventory levels remain elevated.
Tourism activity has softened as well. The decline reflects fewer domestic travelers amid more cautious consumer spending as well as fewer Canadian visitors, in part due to trade-related tensions.

Labor-market conditions have improved as slower population and labor-force growth have tempered labor supply, while the state's economy continues to outperform. Over the past year, Florida added 60,000 non-farm jobs, a gain of 0.6% compared to the 0.4% national pace (September). Job gains were led by health care and social assistance, professional, scientific and technical services, and arts, entertainment and recreation. Although Florida's unemployment rate moved above the national average earlier in 2026, the gap has narrowed. Looking ahead to 2027, continued economic outperformance should support further labor-market improvement and help return the state's unemployment rate below the national average.



Illinois



Stephanie A. Kline
Managing Director
Midwest Region Head

Illinois enters 2027 with many of the advantages that have long made it a critical hub for business investment: a diversified economy, access to major markets, a deep pool of technical and industrial talent, and one of North America's most extensive transportation networks. While businesses continue to navigate uncertainty around costs, labor and economic policy, many are increasingly focused on growth opportunities rather than defensive measures.

Manufacturing remains a source of strength across the state, particularly among companies tied to advanced manufacturing, food production, industrial equipment and transportation-related industries. Demand also remains strong for businesses supporting data center development, including suppliers of electrical components, wiring, fabricated pipe and other critical infrastructure. Continued investment in utilities, infrastructure and industrial projects is creating additional opportunities for construction and engineering firms, reinforcing Illinois' role in long-term capital investment and supply chain expansion.

At the same time, productivity has become a central focus for management teams. Despite Illinois' workforce strengths, competition for skilled labor remains intense, particularly across manufacturing, engineering, construction and technical occupations. In response, many organizations are investing in automation, artificial intelligence and process improvements to increase efficiency, control costs and support growth without significantly expanding headcount. While interest in AI remains high, executives are becoming more disciplined in evaluating where technology investments can deliver measurable business value.

Business leaders are also balancing opportunities against a range of persistent risks. Energy costs remain a significant concern, while interest rate volatility continues to influence capital investment decisions. Trade and tariff uncertainty has not disappeared, but many companies have successfully managed higher costs through pricing actions, supply chain adjustments and operational efficiencies.

Confidence in long-term growth opportunities remains constructive. Merger and acquisition activity continues to be supported by active financial buyers, while strategic acquirers remain focused on opportunities that offer clear synergies and long-term value creation. Many companies are maintaining liquidity while investing selectively in automation, modernization initiatives and strategic acquisitions. Others continue to evaluate facility expansions, supply chain optimization and reshoring strategies designed to improve resilience and enhance proximity to customers.

> "Continued investment in utilities, infrastructure and industrial projects is creating additional opportunities for construction and engineering firms"

The companies best positioned for 2027 will be those that balance operational discipline with strategic investment. By strengthening productivity, diversifying customer relationships and maintaining financial flexibility, Illinois businesses can convert uncertainty into durable growth while capitalizing on the state's enduring advantages as a manufacturing, logistics and distribution hub.

Illinois



Michael Gregory
CFA, Deputy Chief Economist

Illinois ranked among the top 20 states for real GDP growth in the year ending 2026 Q2, continuing an improvement in economic performance relative to earlier years when the state more often trailed national trends. Real GDP grew 1.8% year over year, slightly below the national pace of 2.2%, though Illinois has outperformed the national average in four of the past five quarters.

Two sectors accounted for more than half of the state's growth: finance and insurance, and information. Chicago remains one of the world's leading financial centers. Amid strong financial-market activity, the finance and insurance sector expanded 5.3% year over year, contributing nearly one-third of overall economic growth. The information sector grew nearly 10%, supported in part by Illinois' growing presence in quantum computing and AI. Together, these industries are also driving activity in professional, scientific and technical services. Illinois is reflecting a broader national trend, as these three sectors have been among the largest contributors to growth across the U.S. economy.



One national trend Illinois is not sharing is population growth. The state's population declined 0.1% year over year in 2026 Q2, compared with national population growth of 0.3%. While population declines can influence labor-market conditions, they do not necessarily prevent economic growth. Several high-performing states, including New York and California, have also experienced population losses. For Illinois, continued population softness could nevertheless constrain labor-force growth and the state's longer-term economic potential.

> For Illinois, relatively high tax burdens may be one factor contributing to outmigration and acting as a longer-term constraint on growth.

Labor-market growth has remained modest. Over the past year, Illinois added 13,800 nonfarm jobs, a gain of 0.2%, slightly below the national pace of 0.4% (September). Job creation was led by construction, health care and social assistance, transportation, warehousing and utilities. Notably, the state's two fastest-growing economic sectors, finance and insurance and information, both recorded net job losses over the same period. Meanwhile, the unemployment rate has eased from recent highs but remains somewhat above the national average.

Amid modest employment growth and a slightly declining population, Illinois' housing market has remained relatively flat. According to Redfin, home sales were down 0.6% year over year in the three months ending in September. Even so, the median sale price increased 5.9%, pointing to generally balanced market conditions. Looking ahead to 2027, Illinois appears well positioned to match, and potentially exceed, the national growth rate.

Indiana



Andrew Hedegard
Managing Director
Diversified Industries Group
Midwest

Indiana enters 2027 from a position of relative strength. While uncertainty around trade policy, interest rates and the economic outlook remains, many middle-market businesses are focused on growth opportunities rather than waiting on the sidelines. Indiana's central location, extensive transportation network and deep manufacturing base continue to attract investment, creating opportunities across a broad range of industries and communities.

Much of the state's momentum is driven by advanced manufacturing, logistics, life sciences and businesses supporting significant investments in data centers, infrastructure and industrial development. These large-scale projects are generating opportunities not only for major employers, but also for the suppliers, distributors and service providers that support them. As companies continue to evaluate their supply chains and invest closer to customers, Indiana remains well positioned to benefit from long-term trends in domestic manufacturing, infrastructure modernization and logistics expansion.

Business investment remains healthy, although management teams are becoming increasingly selective in how they deploy capital. Companies continue to pursue acquisitions, facility expansions, automation initiatives and productivity-enhancing technology investments, while financing activity remains active among businesses with strong balance sheets, proven leadership teams and clear growth strategies.

One notable shift is how companies are approaching labor. While attracting and retaining talent remains a concern, the conversation has increasingly moved beyond hiring. Across manufacturing, logistics and other industrial sectors, businesses are investing in automation, artificial intelligence and process improvements to increase productivity and support growth. Rather than simply adding headcount, many organizations are focused on creating more efficient and scalable operations.

Looking ahead, the accelerating pace of technological change is likely to be one of the most important issues facing Indiana businesses. Whether through AI adoption, cybersecurity investments, data management capabilities or automation, companies are evaluating how technology can strengthen competitiveness and improve decision-making. The organizations making the greatest progress are often not those pursuing transformational change overnight, but those taking deliberate steps to improve efficiency, enhance customer experiences and generate better insights from their operations.

> “Rather than simply adding headcount, many organizations are focused on creating more efficient and scalable operations.”

The outlook for Indiana remains constructive. Businesses that maintain financial flexibility while continuing to invest in technology, productivity and strategic growth initiatives will be best positioned to capitalize on emerging opportunities. In an environment where competitive advantage is increasingly tied to operational excellence, Indiana companies that balance disciplined execution with long-term investment should be well positioned for sustainable growth in 2027 and beyond.

Indiana



Priscilla Thiagamoorthy
Senior Economist

Economic output in Indiana continues to rise, but growth has slowed from the brisk pace recorded in recent years and is now trailing the national average. This marks a notable downshift for a state that has consistently outperformed many of its Midwest neighbors since the pandemic.

Manufacturing remains the backbone of the Hoosier State's economy, accounting for an unusually large share of total output. However, the sector's performance has become increasingly divided. Pharmaceutical and chemical manufacturing continue to provide an important tailwind, supported by Indiana's large life sciences cluster and significant investments in production capacity, research, and development. Meanwhile, traditional manufacturing industries, including motor vehicles, machinery, steel, and other durable goods sectors, continue to face weaker demand, elevated financing costs, and significant trade policy uncertainty.

Payroll employment has declined modestly even as economic output has continued to grow. This divergence suggests recent gains have been concentrated in highly productive and capital-intensive industries rather than translating into broad-based hiring. Even so, the jobless rate remains relatively low and below the national average, while labor force participation continues to compare favorably with the country as a whole. Employers also report a considerable number of unfilled positions. However, declining payrolls point to cautious hiring and increasing uneven labor demand.



> Manufacturing remains the backbone of the Hoosier State's economy, accounting for an unusually large share of total output.

Trade policy remains one of the most significant risks heading into 2027. As one of the nation's most manufacturing-intensive and trade-exposed states, Indiana is particularly vulnerable to tariffs on steel, aluminum, copper, vehicle components, and other imported inputs. While tariffs may provide some protection from foreign competition, they also raise costs for manufacturers further down the supply chain, creating additional pressure on margins and investment decisions. Indiana's housing market remains considerably more affordable than the national market, although buyers continue to contend with high mortgage rates and rising ownership costs. Home prices have generally held firm.

Looking ahead, Indiana should enter 2027 with continued economic growth. Pharmaceuticals, advanced manufacturing, logistics, construction, and healthcare remain the principal sources of support. A relatively low jobless rate, solid labor force participation, and comparatively affordable housing provide additional tailwinds.

Minnesota



Philip Sanfilippo
Managing Director
Minnesota

Minnesota business leaders remain cautiously optimistic as we approach 2027, but there is a noticeable shift in how companies are managing their businesses and evaluating growth opportunities. Across the middle market, conversations are increasingly focused on protecting margins, improving productivity, maintaining liquidity and making disciplined investment decisions. Companies are not necessarily pulling back, but they are being more selective about where they commit resources.

One of the more consistent themes among clients is the emphasis on operational efficiency. Businesses continue to face pressure from labor, insurance, utilities and other operating costs, while their ability to pass those increases along to customers remains limited. As a result, we're seeing greater interest in automation, technology and equipment modernization. Artificial intelligence is also becoming part of the conversation, with companies looking beyond experimentation toward practical applications that can improve efficiency and deliver measurable returns.

Minnesota continues to benefit from its strong presence in healthcare, medical technology, specialized manufacturing, food and agriculture. We're also seeing opportunities emerge around infrastructure investment and data center development, particularly for manufacturers and suppliers supporting those industries. At the same time, companies with significant exposure to international trade, discretionary consumer spending and more cyclical markets are navigating greater uncertainty around costs, demand and future investment.

Business sentiment remains constructive, although hiring and capital spending are more measured. Companies are focused on retaining key employees, developing existing talent and improving productivity rather than broadly expanding headcount. Investment continues, particularly in equipment, automation, facility improvements and strategic acquisitions, but projects are being evaluated with greater emphasis on returns and cash flow. Financing conversations increasingly center on preserving liquidity, maintaining flexibility and positioning businesses to act when opportunities arise.

“Business sentiment remains constructive, although hiring and capital spending are more measured.”

Looking ahead to 2027, I believe Minnesota businesses have meaningful opportunities to strengthen their competitive position through productivity improvements, modernization and strategic growth. However, workforce availability, rising costs, trade uncertainty and the state's ability to attract future investment remain important challenges.

The businesses that are best positioned for success will be those that maintain financial flexibility, invest thoughtfully in their people and operations, and remain prepared to pursue opportunities as conditions evolve.

Minnesota



Priscilla Thiagamoorthy
Senior Economist

Minnesota's economy regained momentum during 2026 after a sluggish post-pandemic stretch. Its diverse economic base remains an important source of resilience, with major concentrations in medical technology, healthcare, advanced manufacturing, agriculture, food production, financial services, and professional services.

Manufacturing has been a key source of strength. Medical devices, machinery, food processing, and advanced manufacturing have benefited from investment in automation, research, and domestic production capacity.

Healthcare remains Minnesota's largest and most dependable employment engine. Demand is being reinforced by an aging population and the state's extensive network of hospitals, clinics, and medical research institutions. However, shortages of nurses, technicians, and other specialized workers are limiting the sector's ability to expand.



Payroll employment has continued to grow, but recent monthly weakness suggests employers are becoming more cautious. The jobless rate has moved above the national average, while the labor force and participation rate have declined. Retirements, slower migration, and reduced availability of foreign-born workers are constraining labor supply, particularly in healthcare, construction, and manufacturing.

> "Its diverse economic base remains an important source of resilience"

Employment growth has also become increasingly concentrated. Manufacturing, construction, healthcare, and leisure services account for much of the recent improvement, while financial activities, information, trade, and transportation remain soft. Wage growth has struggled to keep pace with inflation, reducing household purchasing power and weighing on discretionary spending.

Minnesota's housing market has loosened as rising inventory gives buyers more choice and negotiating leverage. Even so, affordability remains challenging, as mortgage rates and ownership costs are high relative to household incomes. Conditions also vary across the state. The Twin Cities market has softened, while smaller cities and rural communities continue to face shortages of entry-level and workforce housing.

Looking ahead, Minnesota should maintain moderate growth. Manufacturing, construction, healthcare, medical technology, and professional services remain the primary sources of economic strength.

Pacific Northwest



Brooks Einstein
Managing Director
Pacific Northwest

The Pacific Northwest middle-market economy continues to expand, though at a slower pace than in prior years. The region exemplifies the K-shaped economy unfolding across the U.S., with some industries benefiting from powerful investment tailwinds while others contend with slower growth and ongoing cost pressures. Businesses continue to navigate higher financing costs, wage pressure and elevated input costs, leading many to remain cautious about capital expenditures despite continued revenue growth. Companies serving AI infrastructure continue to experience robust demand, while healthcare, utility infrastructure and aerospace are also exhibiting strong momentum. As a result, growth remains uneven across sectors, with investment increasingly concentrated in areas supported by long-term structural demand.

Washington's commercial real estate market remains highly bifurcated. Office properties, particularly in downtown Seattle, continue to face elevated vacancy, hybrid work patterns and subdued technology hiring. Higher financing costs remain a challenge for leveraged properties and refinancing activity. In contrast, industrial, data center and logistics assets continue to perform well in desirable submarkets. While broad distress remains limited, lenders remain selective, emphasizing strong sponsorship, conservative leverage, debt-service coverage and property-level cash flow.

Washington's economy has remained resilient through 2026. Strength has been concentrated among companies serving AI infrastructure, aerospace and defense, advanced manufacturing, healthcare and utility infrastructure markets. Many of these businesses continue to benefit from investment in power generation, data center development and supply-chain modernization. Supported by a highly educated workforce, access to global markets and advanced manufacturing capabilities, Washington continues to offer significant opportunities for manufacturers, engineering firms, distributors and equipment suppliers.

Despite softer economic trends, Oregon's economy has remained resilient. Employment growth has been modest, while a looser labor market has eased hiring challenges compared with the post-pandemic period. Economic activity has improved gradually, but inflation, fuel costs, tariffs, insurance and other operating expenses continue to pressure margins and constrain investment.

> The region exemplifies the K-shaped economy unfolding across the U.S., with some industries benefiting from powerful investment tailwinds while others contend with slower growth and ongoing cost pressures.

Conditions vary considerably by industry. Healthcare, infrastructure and construction continue to perform relatively well, while manufacturing and agriculture have been softer. Commodity agriculture markets remain under pressure, and the wine and alcoholic beverage industries continue to face difficult operating conditions.

The Pacific Northwest remains a growth market, albeit at a more moderate pace than before and immediately following the pandemic. Companies with strong balance sheets, moderate leverage, defensible market positions and exposure to aerospace, healthcare, infrastructure and specialized industrial markets appear best positioned to capitalize on opportunities across the region in 2027.

Pacific Northwest



Scott Anderson
Ph.D., Chief U.S. Economist

Economic momentum across the Pacific Northwest remains subdued heading into 2027, with Oregon and Washington continuing to face weak hiring, elevated unemployment, and softness across several cyclical industries. While conditions have improved modestly from earlier in 2026, particularly in Oregon, economic growth remains below the robust pace seen during the post-pandemic expansion.

Labor-market conditions remain a key constraint across the region. Construction, healthcare, leisure, and hospitality have supported recent hiring gains in Oregon, while manufacturing employment continues to lag. Weakness remains particularly evident in the Portland area, where payroll employment declined across manufacturing, construction, professional and business services, and information. The Seattle metropolitan area has fared somewhat better, with total nonfarm employment rising. However, labor-market conditions have softened across Washington more broadly, with employment declining and the unemployment rate moving higher.

Demographic trends present an additional long-term challenge, particularly in Oregon. Population growth is expected to remain modest and increasingly dependent on net migration. Slower population growth and changing migration patterns are likely to constrain labor-force expansion and limit long-term employment growth across the region.

The outlook for 2027 appears somewhat more balanced than it did earlier in 2026. In Oregon, the drag from large corporate job reductions and tariffs has begun to ease, while hospitality, real estate, entertainment, and financial services have supported improving economic activity. However, manufacturing and construction remain soft, and the region's trade exposure leaves it vulnerable to shifts in tariff policy and global demand. In Washington, slower employment growth continues to weigh on the outlook and has contributed to downward revisions in state revenue projections.

> "Slower population growth and reduced immigration are likely to constrain labor-force expansion and limit long-term employment growth across the region."

Housing remains another constraint. The Portland and Seattle regions continue to face elevated housing costs, affordability challenges, and a limited construction pipeline. These pressures could further restrict migration and labor-force growth, even as broader economic conditions gradually improve.



Texas



Todd Burns
Head
Diversified Industries Group
Southwest Region

Texas continues to demonstrate remarkable economic resilience. According to the Texas Workforce Commission, the state added more than 154,000 jobs over the past year, representing 1.1% employment growth and continuing to outpace the national average. Population growth remains another important long-term tailwind. The midterm elections have brought a significant change in the political and policy landscape heading into 2027. Across industries, clients are watching closely for what that could mean for taxation, regulation, energy, infrastructure and workforce policy, all of which play an important role in long-term planning and investment decisions.

Manufacturing accelerated during the second half of 2026, while aerospace and defense continue to serve as important growth drivers, particularly in North Texas. Business investment tied to energy, industrial development and infrastructure remains supportive of economic expansion across many regions of the state.

Business sentiment remains cautiously optimistic. Companies continue to pursue growth opportunities, but with a more disciplined approach to capital deployment, hiring, and investment decisions. Liquidity and financial flexibility have become greater priorities as businesses balance expansion plans against an environment characterized by higher financing costs, evolving trade policies and geopolitical uncertainty. Companies are not pulling back on growth, but they are becoming increasingly intentional about where and how they deploy capital. Strategic acquisitions, technology investments and operational efficiencies remain key areas of focus.

We expect M&A activity to strengthen over the next year, particularly within the middle market. The key distinction is that 2027 is likely to be a year of selective acceleration rather than a broad-based M&A boom. Buyers will continue to prioritize quality companies, predictable cash flows, and businesses with sustainable growth.

One of the most significant opportunities facing Texas is the convergence of energy, technology and industrial infrastructure. Accelerating investment in AI data centers, power generation and transmission infrastructure is creating opportunities across manufacturing, construction, engineering and energy services.

> “Companies continue to pursue growth opportunities, but with a more disciplined approach to capital deployment, hiring, and investment decisions.”

Looking ahead, the primary challenge will be balancing significant growth opportunities against continued economic uncertainty and cost pressures. Labor availability, financing costs, trade policy and geopolitical developments remain important considerations. Regionally, Dallas-Fort Worth and Houston continue to benefit from diversified economies, population growth and infrastructure investment. Austin remains supported by technology and innovation, though growth may moderate as affordability and labor constraints persist. San Antonio faces a more measured outlook following slower employment growth tied to government and education-related sectors.

Texas remains exceptionally well positioned for continued economic expansion. Companies are closely monitoring the policy environment as they evaluate growth strategies, capital expenditures and operational plans, particularly in areas such as taxation, regulation, energy and infrastructure. For now, businesses remain focused on the factors they can control: maintaining financial flexibility, investing selectively and positioning their organizations to capture long-term growth opportunities.

Texas



Priscilla Thiagamoorthy
Senior Economist

The Texas economy continues to expand, but growth has become less uniform and remains below the pace seen during the post-pandemic period. The state's diverse economic base remains one of its greatest strengths. While energy still plays an outsized role, technology, advanced manufacturing, financial services, healthcare, logistics, and professional services have made Texas less dependent on oil-price cycles.

Technology has been a key source of growth. Significant investment in artificial intelligence, cloud computing and data centers is driving activity in information services and nonresidential construction. Semiconductor, aerospace, electronics, chemical and machinery production are also expanding, while Texas' proximity to Mexico and deep integration with North American supply chains remain important competitive advantages.

The midterm elections have also changed the policy landscape heading into 2027, with a shift in congressional control and changes in leadership in Texas. For businesses, the focus is less on the political outcome itself and more on what it could mean for taxation, regulation, trade, energy and infrastructure policy. Data centers and other power-intensive development will be particularly sensitive to decisions around electricity supply, water use, permitting and infrastructure investment. With the policy direction still taking shape, uncertainty around implementation will remain an important consideration for business planning.

Energy presents a more mixed picture. Higher oil prices and stronger natural gas demand are supporting investment, exports and state revenues. At the same time, elevated energy costs continue to pressure household budgets and increase operating expenses for businesses.

The labor market has lost momentum after a stronger start to the year. Job growth continues to outpace the national average, but it has slowed considerably from Texas' historical trend and become increasingly concentrated in manufacturing and technology-related industries. Residential construction, government, and several consumer-facing sectors have softened.

> "Texas' long expansion was supported by a steady inflow of workers and residents, but labor-force growth is no longer keeping pace with investment activity."

Slower migration and immigration represent a significant structural headwind. Texas' long expansion was supported by a steady inflow of workers and residents, but labor-force growth is no longer keeping pace with investment activity. As a result, labor shortages could increasingly constrain construction, manufacturing, healthcare, and hospitality.

Housing remains another area of weakness. Rising inventory and slower sales have given buyers greater negotiating leverage, while elevated mortgage rates, property taxes, and insurance premiums continue to strain affordability. Residential construction remains subdued, although strong investment in data centers, semiconductor facilities, and energy infrastructure is providing an important offset.

Looking ahead, Texas should maintain moderate growth, supported by artificial intelligence, energy, advanced manufacturing, and export activity. However, slower migration, labor constraints, housing affordability challenges, and infrastructure pressures are likely to temper the pace of expansion.

Utah



Paul Thomsen
Managing Director
Diversified Industries Group
Southwest

Utah enters 2027 from a position of relative strength, supported by a diversified economy, long-term population growth, and a business-friendly operating environment. While growth is moderating from the exceptional pace of recent years, disciplined operators and strategic investment continue to drive expansion across key industries.

Construction remains a bright spot, supported by ongoing demand for housing, infrastructure, and commercial development. Professional and business services, particularly residential-adjacent industries, continue to benefit from Utah's young and growing population. At the same time, the state's economic engine is evolving beyond its software roots. Investment continues to accelerate across advanced manufacturing, semiconductors, energy storage, robotics, aerospace and defense, critical minerals, and AI-enabling infrastructure.

Northern Utah remains a major beneficiary of aerospace and defense activity, while inland port development and logistics infrastructure are attracting fulfillment, industrial, and data center investment. Companies focused on data management, analytics, and digital infrastructure also remain well positioned as organizations increase spending on information, automation, and AI capabilities.

The most significant challenge remains housing affordability. Continued population growth, limited developable land, and infrastructure constraints have contributed to elevated housing costs, creating pressure on workforce recruitment and retention. Labor availability also remains a concern, particularly across the skilled trades, engineering, cybersecurity, and other specialized technical fields.

Capital investment remains concentrated in sectors tied to long-term structural growth, including advanced manufacturing, aerospace and defense, energy infrastructure, logistics, and data centers. Businesses continue to favor measured expansion and optimization of existing operations rather than large-scale greenfield projects, reflecting higher construction costs and a more disciplined investment environment.

Commercial lending activity remains healthy, with regional and middle-market lenders actively competing for quality opportunities. While growth capital remains available, investors and lenders are increasingly selective as businesses navigate higher financing costs, geopolitical uncertainty, and uneven industry performance.

> Businesses continue to favor measured expansion and optimization of existing operations rather than large-scale greenfield projects, reflecting higher construction costs and a more disciplined investment environment.

Looking ahead, Utah's long-term outlook remains favorable. Continued investment in advanced manufacturing, AI infrastructure, energy, aerospace and defense, and critical minerals should support growth, while population-driven demand continues to benefit healthcare, housing, logistics, and consumer services. Risks include housing affordability, labor shortages, infrastructure capacity, and a continued normalization of growth following years of outperformance. Even so, Utah's combination of economic diversification, entrepreneurial culture, and long-term planning provides a strong foundation for continued expansion through 2027.

Utah



Scott Anderson
Ph.D., Chief U.S. Economist

Utah entered the year with solid labor-market fundamentals, including 1.5% job growth and a 3.3% unemployment rate, while population growth of 1.3% continued to exceed the national pace. Salt Lake City continues to outperform many major U.S. metropolitan economies in 2026, supported by a diversified industry base, above-average population growth and continued business investment. Growth has moderated from the exceptionally strong rates recorded earlier in the decade, but the state remains supported by expansion across technology, professional services, healthcare, construction and financial services.

Labor-market conditions in Salt Lake City strengthened through 2026. Payroll employment in the Salt Lake City-Murray metropolitan area increased, led by gains in education and health services, construction, and business services. Unemployment has remained comparatively low, reinforcing the region's relatively favorable labor-market position.



Investment remains an important source of support heading into 2027. Downtown Salt Lake City is in the midst of a significant development cycle, with roughly $10 billion planned across 23 downtown projects over the decade, including a $4 billion sports, entertainment, cultural and convention district. Downtown activity has already strengthened, with consumer spending reaching new highs and the downtown residential population rising 63% since 2019.

Housing affordability, however, has emerged as one of the clearest constraints on the region's longer-term growth. Utah's median home sale price reached $520,000 in the first quarter of 2026, while the median single-family home price stood at $559,900. The income estimated to purchase the median-priced home with a 10% down payment was approximately $147,000 during the first half of the year, leaving a substantial affordability gap for many households. At the same time, new apartment supply has helped cool parts of the rental market.

> "The region's young workforce, diversified industry base and investment pipeline should continue to support activity, while slower migration and elevated housing costs pose"

Looking into 2027, Salt Lake City remains positioned to outperform many peer metros, though at a more moderate pace than during its post-pandemic expansion. The region's young workforce, diversified industry base and investment pipeline should continue to support activity, while slower migration and elevated housing costs pose growing constraints. The metro economy is projected to expand from $124.4 billion in 2026 to $128.0 billion in 2027, reinforcing expectations for continued, albeit more moderate, growth.



Outlook from the ground
Client Perspective

"We are seeing consumer spending remaining strong for ReLyte but the growth is slowing. That could be a leading indicator of economic concerns or it could just be a factor of playing in an increasingly crowded space. We are seeing continued headwinds on the fencing side. To me this is more a signal towards economic concerns vs anything else we are seeing. We are seeing increased activity in oil and gas exploration which is fueling good growth for us in the clay business." --**Justin Comish, VP of Finance, Redmond**

"We are seeing softness in construction overall...with pockets of strength (data centers). Lots of bidders are compressing margins on mid-size jobs. Building materials margins (lumber, truss, etc) compressed due to interest rates and uncertainty, but for us volume is flat to slightly up depending on the segment. Land development is super tight as well with many deals just not penciling due to some of the aforementioned factors." - **Client**

"Data centers are treated as somewhat of a foregone conclusion, where I think that's less the case in Utah, given the concerns around water; across the country as a whole, it likely is a foregone conclusion. The measured growth with trying to fill out existing facilities because greenfield development is so expensive likely applies beyond Utah's borders because the economic pressures that make it expensive apply across the country." - **Client**

"Another piece that I think is probably central to the region's trajectory is preparing for the Olympics in 2034. Some of this is infrastructure... some of it will be around private development of things like added hotel rooms. I haven't seen much of that happening as of yet." - **Client**

Wisconsin



David Anderson
Head, North Region
Diversified Industries Group
Middle Market

Wisconsin businesses are entering 2027 from a position of deliberate acceleration after several years of resilience. Following solid performance in both 2025 and 2026, most companies remain optimistic despite elevated economic and political uncertainty. While questions persist around monetary policy, geopolitics and the broader economy, Wisconsin's business community continues to demonstrate its ability to adapt quickly while remaining focused on stability, productivity and long-term execution.

At the same time, businesses are operating within a structurally constrained growth environment shaped by long-running labor shortages and slower economic expansion relative to the national average. Many companies have spent the past several years strengthening balance sheets and reducing leverage, positioning themselves to pursue growth opportunities despite limited labor availability. As confidence has improved, we are seeing a more constructive M&A environment emerge. Companies are pursuing acquisitions to expand geographically, deepen talent and leadership benches, vertically integrate operations and improve control over supply chains and lead times. Others are monetizing years of investment through outright sales or employee ownership strategies.

Operationally, businesses continue to prioritize efficiency and productivity. Labor markets remain tight, driven more by demographic pressures than by excessive hiring demand, particularly in the skilled trades. In response, companies are investing in automation, technology and newer equipment to enhance productivity, increase throughput and extend workforce capacity. After several years of focusing on efficiency improvements and deleveraging, many businesses are beginning to increase capital expenditures to accommodate demand and capture the benefits of more advanced technologies.

Manufacturing and construction remain foundational to Wisconsin's economy, even as both sectors navigate labor scarcity, tariff exposure and margin pressure. The ongoing buildout of data center infrastructure is creating opportunities for construction firms and manufacturers throughout the supply chain. Many Wisconsin manufacturers, including Tier 1-3 suppliers serving automotive, trucking and heavy equipment markets, continue to benefit from steady demand.

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Looking ahead, labor availability remains Wisconsin's most significant structural challenge. Energy costs, including fuel and other key inputs, are also a growing concern as businesses manage rising costs across their supply chains. Many are increasingly evaluating commodity and interest-rate hedging strategies to protect margins and improve planning certainty.

Success in 2027 will likely come from maintaining discipline, investing strategically and continuing to grow through productivity, efficiency and scale while staying focused on long-term opportunities rather than short-term noise.

Wisconsin



Michael Gregory
CFA, Deputy Chief Economist

Wisconsin's economy continues to expand at a slower pace than the nation overall. Real GDP grew 1.2% in the year ending 2026 Q2, a full percentage point below the U.S. rate and ranking 33rd among states. This underperformance has been a persistent challenge. Since 2006, Wisconsin's annual growth rate has averaged 0.8 percentage points below the national pace. Although Wisconsin's exposure to manufacturing and agriculture can create cyclical headwinds, longer-term economic growth has been constrained by workforce shortages and a smaller presence in the fast-growing information sector.

At first glance, labor-market conditions appear favorable. Wisconsin's unemployment rate stood at 3.2% in September, among the lowest in the nation and a full percentage point below the U.S. average. However, the state's aging population continues to limit labor-force growth and participation. Changes in immigration patterns are adding to workforce constraints at a time when employers continue to compete for a limited pool of available workers. With the participation rate only beginning to recover from recent lows, workforce availability remains a structural constraint. Despite these challenges, Wisconsin added 13,000 nonfarm jobs over the past year, representing growth of 0.4%, in line with the national pace. Job gains were led by accommodation and food services, health care and social assistance, and construction.

The state's demographic profile is also shaping its industry performance. Health care and social assistance was the largest contributor to economic growth, with output increasing more than 6% year over year in 2026 Q2. Durable goods manufacturing was the second-largest contributor, expanding nearly 4% despite ongoing trade-related headwinds, including tariffs and retaliatory measures affecting key export markets. Finance and insurance, along with professional, scientific and technical services, also made meaningful contributions. By contrast, the information sector remains a relative weakness. Wisconsin's information industry accounts for a smaller share of economic activity than in many faster-growing states and has not participated to the same degree in the sector's nationwide expansion.

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Housing-market conditions remain healthy. According to Redfin, home sales increased 2.7% year over year in the three months ending in September, while the median sale price rose 5.6%. Even so, housing affordability, historically a competitive advantage for Wisconsin, continues to erode. As a result, workforce availability is likely to remain a key factor shaping the state's economic performance in 2027.



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