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# The U.S. Economy in Global Context

Remarks by

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Thank you, Governor Costa, for that kind introduction and for the invitation to deliver this keynote address and to participate in the 29th Annual Conference of the Central Bank of Chile today.[1] It is a distinct privilege to be back in Santiago. I first came to Chile between my second and third years as a Ph.D. student at Berkeley after completing a summer as an intern at the World Bank. I was on a quest to determine whether economic growth in Latin America or in another region of the world would be the subject of my dissertation. It piqued my interest in inflation targeting, a sound fiscal framework, and now, of course, how to think about the economic forces reshaping the global economy. I am grateful for the chance to continue to learn from your experience and to share some of my own thinking.

I want to begin by acknowledging a fact that may seem obvious but is easy to overlook in the day-to-day work of setting monetary policy: The U.S. economy does not sit in isolation. As a member of the Federal Reserve Board of Governors, my mandate is domestic—to promote maximum employment and price stability in the United States. But achieving that mandate requires that I pay careful attention to global developments, including economic and financial developments in Chile and across Latin America. The forces reconfiguring your economies are, in many cases, identical to the forces reconfiguring ours, even if they arrive on our respective shores somewhat differently.

**Geopolitics and Trade**

Let me start with geopolitical events. Over the past several years, the global economy has absorbed a remarkable sequence of shocks. Russia's war in Ukraine disrupted energy and commodity markets worldwide. The conflict in the Middle East

[1] The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

pushed up energy prices again this year, and experts have warned that damaged infrastructure and depleted inventories could keep oil prices elevated for an extended period. These are not simply North American concerns. Oil is a globally traded commodity, and a conflict that drives up the price of oil in Houston drives it up in Santiago, as well. The precise transmission differs across countries, depending on whether they are net energy importers or exporters, but few economies have been insulated.

A related story applies to trade. Over the past two years, the U.S. has raised tariffs on a wide range of imports, and considerable uncertainty remains about where tariff levels will ultimately settle. In the U.S., the effects of tariffs on inflation appear to have moderated, even as uncertainty about future trade policy persists. China, too, has increased trade restrictions, limiting exports of critical minerals for which it supplies a large fraction of the world's production. These minerals are a crucial input, and uncertainty is rising around the world about access to them. I raise this not to make a judgment about trade policy—that is not my role—but because such shifts inevitably reverberate across the global economy. When trade relationships between major economies are altered, other countries must decide how to respond: whether to deepen commercial ties elsewhere, reconfigure supply chains, or wait for greater clarity before committing to new investment. These are decisions playing out in boardrooms and finance ministries around the world right now, including, I suspect, in some of the economies represented in this room.

**The Global AI Buildout**

The third global force I want to highlight—and the one I will spend the most time on—is the extraordinary buildout of artificial intelligence (AI) infrastructure now underway around the world.

While at the Board, I have spent much of my career as an economist studying innovation, including AI. Now, I spend considerable time talking with contacts in the U.S. and around the world about how AI is evolving and being used. I have spoken on several occasions about how I view AI—as a general-purpose technology, on par with or perhaps exceeding the steam engine, electrification, and the internet in its potential to transform how we work, innovate, and grow. This technology could bring a productivity boom unparalleled in generations.[2] At the same time, I worry deeply about our shared risks resulting from the technology, such as the specter of a painful labor market transition or cyber and financial-stability risks. Uncertainty abounds.

In the U.S., AI has catalyzed a historic wave of investment. Companies have announced plans for more than $2 trillion in specific data center construction projects. So far, only a fraction of this has been realized.[3] This investment is already showing up in output data. And there is evidence of spillovers to other parts of the economy—in the price of chips and high-tech equipment, construction wages, and electricity costs.

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[2] See Lisa D. Cook (2026), "An Update on AI and the Economy," speech delivered at Oakland Tech Week, cohosted by the Kapor Center, Oakland, California, September 28, https://www.federalreserve.gov/newsevents/speech/cook20260928a.htm.

[3] See Eirik Eylands Brandsaas, Daniel Garcia, Robert Kurtzman, Joseph Nichols, and Adelia Zytek (2025), "Estimating Aggregate Data Center Investment with Project-Level Data," Finance and Economics Discussion Series 2025-109 (Washington: Board of Governors of the Federal Reserve System, December), https://doi.org/10.17016/FEDS.2025.109. For updated data, see Eirik Brandsaas (2026), DataCenterPublic, GitHub repository, https://github.com/eirikbrandsaas/DataCenterPublic.

What I want to stress today is that this is not simply a North American phenomenon. By some estimates, roughly one-half of the world's data-center capacity now under construction is being built outside the U.S.[4] The AI buildout is a global undertaking, and it is reshaping economies—including economies in this region—in ways that are only beginning to be understood.

Chile and its neighbors sit at an interesting intersection of this story. This country is the world's largest producer of copper and the second-largest producer of lithium—two minerals increasingly central to the infrastructure that AI requires, including power transmission and energy-storage systems.[5] This raises some questions to which I do not think any of us has a full answer. As demand for these minerals rises and falls with the pace of the global AI buildout, does this represent a new source of growth for resource-rich economies or a new source of volatility layered on top of already volatile commodity cycles? As capital flows toward AI infrastructure and related resource extraction around the world, what are the implications for smaller open economies managing capital flows, exchange rates, and financial stability?

Corresponding to the buildout in physical infrastructure, adoption of AI tools by businesses and individuals is spreading quickly as well, albeit unevenly across countries. Recent work tracking the share of the working-age population using generative AI tools finds diffusion ranging from roughly 25 to 45 percent across higher-income economies, including Chile. These figures already exceed the pace of adoption we saw for personal

[4] Additional information is available on ABI Research's website at https://www.abiresearch.com/news-resources/chart-data/data-center-it-capacity-ai-workloads-forecast.

[5] See National Minerals Information Center (2026), "2024 Minerals Yearbook, volume III, Area Reports—International: Country Reports, Global Production, and Global Mineral Facilities," U.S. Geological Survey Data Release, August 31, https://doi.org/10.5066/P1KEQASH.

computers at a comparable stage.[6] This matters a great deal for growth, because wider adoption of a general-purpose technology is ultimately how its productivity gains would be realized throughout an economy—gains that, in principle, could be sizeable.

Simultaneously, researchers have raised questions about the distribution of gains across countries. Recent analysis from the International Monetary Fund suggests that advanced economies may be positioned to capture a disproportionate share of global AI-driven productivity growth over the next decade, relative to developing economies.[7] If this pattern holds, it raises important questions: Where in the distribution will countries like Chile wind up, and what might determine distributional outcomes?

Finally, on the AI buildout, I would like to address AI and the labor market, the focus of today's conference. As with any major new technology, AI is likely to cause a shift in the labor market with jobs and job tasks being replaced by AI, and new jobs—many of which we cannot yet conceive of—being created. Ultimately, history has shown that human innovation will likely lead to a successful transition, with permanent job loss unlikely. However, I am very aware of the nonzero probability that this transition could take time and that job losses due to AI could precede new job creation.

In the U.S., labor markets appear resilient to date, but AI adoption is still in its early stages, and I think it is too soon to feel comforted. We do see that some workers

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[6] See Sha Sajadieh, Loredana Fattorini, Raymond Perrault, Yolanda Gil, Vanessa Parli, Lapo Santarlasci, Juan Pava, Nestor Maslej, Russ Altman, Erik Brynjolfsson, Carla Brodley, Jack Clark, Virginia Dignum, Vipin Kumar, James Landay, Terah Lyons, James Manyika, Juan Carlos Niebles, Yoav Shoham, Elham Tabassi, Russell Wald, Toby Walsh, and Dan Weld (2026), *The AI Index 2026 Annual Report,* AI Index Steering Committee, Institute for Human-Centered AI, Stanford University, April, https://hai.stanford.edu/assets/files/ai_index_report_2026.pdf.

[7] See Eugenio Cerutti, Antonio Garcia Pascual, Yosuke Kido, Longji Li, Giovanni Melina, Marina M. Tavares, and Philippe Wingender (2025), "The Global Impact of AI: Mind the Gap," IMF Working Paper No. 25/76 (Washington, D.C.: International Monetary Fund, April), https://www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025076-print-pdf.pdf.

have already been affected by AI. For instance, there is already some evidence that labor demand has cooled for coding jobs in the software industry and in simultaneous translation. In addition, younger adults are experiencing prolonged job searches, which some attribute to nascent pressure from AI on entry-level positions. As AI adoption spreads, younger workers may continue to be disproportionately affected, and firms may need to take innovative and creative steps to train their future workforce.

I am watching carefully the speed and acceleration of AI adoption across sectors and noting evidence of the changing mix of jobs within firms. New types of tasks and jobs are already being created, and I remain hopeful that job creation will be able to keep pace with job destruction.

I will now turn to my outlook on the U.S. economy.

**U.S. Economic Outlook**

Overall economic growth in the U.S. is strong—and accelerating. The labor market remains solid, and, of great concern to me, inflation is well above the Fed's 2 percent target and has been for 67 months. I will start my forecast, as I typically do, with the price-stability side of our dual mandate, because, given the current state of the economy, this is my focus. Then, I will give my views on the path of monetary policy. One theme I want to emphasize is that waiting to act when a policy adjustment is required has a cost.

*Inflation*

Inflation, as measured by the personal consumption expenditures (PCE) price index, has exceeded the 2 percent target described in our framework for nearly six years. Based on U.S. inflation data released last week, it is estimated that the 12-month change

in the PCE price index was 3.8 percent in October. The 12-month change in core prices—which exclude volatile food and energy costs—was 3.2 percent in October. The core measure underscores that, while energy is a significant contributor to inflation, the sources of price pressure facing American families are increasingly varied.

Inflation soared in 2021 and 2022 because of supply disruptions and surging demand following the reopening of the U.S. and economies around the world as the global pandemic abated. The Fed, much like other central banks, responded by aggressively raising interest rates to fight inflation. I supported those actions as soon as I joined the Fed. From the middle of 2022 until the early part of last year, inflation moved down and appeared to be on a sustainable path back toward the 2 percent objective. However, a series of economic shocks over the past 18 months—including significant changes to trade policy, geopolitical developments, and massive investment in technological infrastructure—partially reversed that progress. Annual inflation in the U.S. has been steadily above 3 percent for much of this year, and, thus far, there is little evidence inflation is declining. In fact, the most recent inflation release showed that prices are rising briskly in a very broad range of categories—including airfare, appliances, furniture, hotels, and restaurants, to name a few.

*Labor market and output*

Next, I will turn to the labor market, the other half of the dual mandate assigned to the Fed by Congress. The U.S. labor market is solid, with still-low unemployment and consistent, though modest, hiring. The unemployment rate was 4.1 percent in October and has trended down modestly for nearly a year. As I have already mentioned, there is little evidence that AI is producing a significant imprint on the aggregate unemployment

rate. Other data indicate the labor market is roughly in balance and gradually improving. Payrolls climbed by 165,000 in October, and some evidence is emerging that hiring is broadening to a wider array of sectors. Job openings in September were largely unchanged at 7.5 million, and initial unemployment claims, a proxy for layoffs, remain near historical lows—at a four-week moving average of about 195,000.

Despite signs of strength, some Americans remain understandably frustrated with the state of the labor market. The "low hire" environment is particularly challenging for new entrants. And wages are growing but not enough to overcome the damaging effects of inflation. Still, low unemployment is consistent with achieving our maximum-employment mandate, and, therefore, as a monetary policymaker, I am more focused on the inflation side of our remit.

Economic output in the U.S. has accelerated. GDP rose at a 3.4 percent annual pace in the third quarter, a pickup from already solid growth in the first half. The AI infrastructure buildout I previously discussed is a significant contributor to this acceleration. At the same time, American consumers have proven to be resilient, with real household spending rising an annualized 3.8 percent last quarter despite higher energy prices and broader inflationary pressure.

**Monetary Policy**

This leads to the path of U.S. monetary policy. The Federal Open Market Committee in September raised the target range for the federal funds rate to 3¾ to 4 percent to support a timelier return to the 2 percent objective. I supported that decision. At the most recent meeting, in October, the Committee voted to hold the policy rate

steady. I dissented from that decision. I preferred to raise the target range another ¼ percentage point. Two main reasons informed my decision to dissent.

First, in my view, financial conditions are too accommodative at a time when inflation remains stubbornly above target, with no clear signs of disinflation in train. The current stance of policy does not appear to be curtailing the AI buildout, and equity prices continue to support consumer spending. As a result, holding our policy rate steady will lead to a positive and widening output gap and increasing inflationary pressure. Indeed, we are seeing elevated inflation in a broad swath of goods and services. I see the act of holding the rate steady as much a monetary policy action as the act of increasing the rate.

Second, my vote reflected the urgency I feel to tackle inflation. Inflation has been above target for more than five and a half years, and every additional day poses greater risk that price- and wage-setters will adjust their inflation expectations upward. Furthermore, waiting longer to implement rate increases risks getting behind the curve. If we fall behind, additional and larger rate increases may be required later to catch up, which could increase stress on our financial system and have unnecessarily damaging effects on American households.

I have previously discussed my growing concern about the direction of inflation in several speeches this year.[8] I have called inflation unacceptably high. This remains

[8] For example, see Lisa D. Cook (2026), "Economic Outlook," speech delivered at the Economic Club of Miami, Miami, Florida, February 4, https://www.federalreserve.gov/newsevents/speech/cook20260204a.htm; Lisa D. Cook (2026), "The Opportunities and Risks AI Presents for the Economy and Financial System," speech delivered at the Stanford Institute for Economic Policy Research, Stanford University, Stanford, California, May 27, https://www.federalreserve.gov/newsevents/speech/cook20260527a.htm; Lisa D. Cook (2026), "Economic Outlook," speech delivered at the Exchequer Club of Washington, D.C., Washington, July 15, https://www.federalreserve.gov/newsevents/speech/cook20260715a.htm; Lisa D. Cook (2026), "Outlook for the U.S. and Alaskan Economies," speech delivered at the 2026 Economic Luncheon of the Anchorage Economic Development Corporation, Anchorage, Alaska, August 5,

my view. I have articulated my frustration that inflation has moved in the wrong direction as a series of shocks stacked upon each other. In addition, I noted that the extended time inflation had exceeded our target was an important part of my calculation. In a different environment, the Committee could afford to be patient, but I continue to believe that in this economic climate we do not have that luxury. I am skeptical that September's single ¼ point rate increase will be enough to change the path of inflation. The number and magnitude of future adjustments should be informed by observations of the economy's reaction to our policy actions. The inflation data received since the September rate increase, including reports last week, fail to provide me with sufficient evidence that inflation is returning to a sustainable path.

**Conclusion**

Allow me to close where I began. The forces I have described today—geopolitical conflict, shifting trade relationships, and the buildout of AI—extend beyond national borders and weigh on the minds of monetary policymakers, including those in the U.S. and here in Chile. In terms of my view of U.S. policy, there is an overriding issue we must confront: Inflation has been above our target for far too long. I take great encouragement from the resilience of the labor market and the American economy—and

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https://www.federalreserve.gov/newsevents/speech/cook20260805a.htm; and Cook, "An Update on AI and the Economy" (in note 2).

In a February speech, I discussed my frustration that inflation appeared to have stalled stubbornly above our 2 percent goal. Based on the most recent data available at the time, I saw risks to our mandate tilting toward inflation and noted that the longer inflation remains above target, the greater the probability that higher inflation will become entrenched in expectations. I continue to be highly concerned about entrenched expectations. Similarly, in a speech in May, I mentioned that inflation was moving in the wrong direction. I said then that I was prepared to raise rates if disinflation did not appear in a timely manner. The data received in the six months since those remarks have shown no sign of such disinflation. In a July speech, I said that inflation was unacceptably high. That remains my view. And in an August speech I noted that the extended time inflation had exceeded our target was an important part of my calculus. In a late September speech, I expressed my support for the policy choice to raise rates because inflation had been too high for too long.

the promise of the technologies now reshaping it. This promise will be best supported if we restore stable prices on which sustainable growth depends. Delivering on both sides of the dual mandate is the task before the Federal Reserve, and I am committed to seeing it through.

Thank you for your time today, and thank you for the warm welcome back to Santiago.