

U.S. ECONOMIC OUTLOOK

The heat is on!

Summary: Our June 2026 U.S. economic outlook points to an expansion that remains intact but increasingly uneven beneath the surface. Growth continues at a moderate pace, supported by steady demand and a labor market characterized by ‘defensive stability,’ but underlying momentum is softening as household purchasing power wanes and buffers thin. While activity has yet to materially weaken, we are concerned that consumer spending strength – now more closely tied to wealth as real income shrinks – suggests rising fragility and a narrower margin for error.

At the same time, inflation is proving more volatile and less cooperative than earlier in the year, with tariff- and energy-driven pressures interrupting the disinflation path and progress across core components remaining gradual and uneven. Wholesale prices are climbing higher, increasing expectations of a pass through to core consumer prices. This combination – resilient activity, persistent inflation and elevated uncertainty – will keep the Federal Reserve firmly on hold through 2027. As more Fed members signal concern on upside inflation risks, risks of a rate hike have increased considerably. In this environment, our baseline continues to favor continued normalization rather than recession. The forecast calls for slower growth, a labor market that adjusts through restraint rather than retrenchment, and a delayed – but still evolving – return toward more durable disinflation.

- **Growth:** We expect real GDP growth to slow to 1.9% Q4-over-Q4 in 2026 (2.0% annual average) amid higher energy prices and firmer inflation. Consumer spending moderates as purchasing power is squeezed, while strength in AI-related investment and government spending helps offset weaker residential construction – keeping growth slower but intact.
- **Labor market:** Conditions continue to normalize without unraveling. We still expect the unemployment rate to edge up to around 4.6% by late 2026, reflecting modest hiring amid slower labor force growth. Volatile payrolls, still-subdued hiring and low jobless claims support near-term stability but leave the labor market increasingly sensitive to shocks.
- **Inflation:** Core inflation has firmed in the near term, reflecting energy pass-through and tariff-related goods pressures. We expect core Personal Consumption Expenditures (PCE) to peak around 3.3% year-over-year (YoY) in Q2 2026, then ease gradually toward the Fed’s 2% goal by late 2027 as goods prices normalize, shelter cools and wage growth moderates.
- **Federal Reserve:** The Fed remains on hold, with recent communications reflecting a more hawkish tilt amid firmer inflation and energy uncertainty. With labor conditions stable and inflation progress uneven, policymakers have signaled that a pivot toward tightening can no longer be dismissed. We now expect the policy rate to remain on hold at a range of 3.50% to 3.75% through 2027.
- **Risks:** We maintain a 30% 12-month recession probability, reflecting resilient data, labor market stability and relative insulation from the energy shock. Still, a sustained rise in energy prices – particularly above \$130 – and thinning household buffers pose downside risks to the expansion.

Economics Research Group contributors

Beth Ann Bovino

Chief Economist
bethann.bovino@usbank.com

Ana Luisa Araujo

Senior Economist
analuisa.araujo@usbank.com

Matt Schoeppner

Senior Economist
matthew.schoeppner@usbank.com

Adam Check

Economist
adam.check@usbank.com

Andrea Sorensen

Economist
andrea.sorensen@usbank.com

Investment products and services are:

NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY

U.S. Bank Economics Research Group June 2026 Macro forecast summary

	Actual 2025	Forecast 2026	Forecast 2027	Forecast 2028
Real GDP	2.1	2.0	2.2	2.3
Consumer Spending	2.6	1.9	1.9	2.1
Investment	1.9	3.5	5.0	4.3
Housing Starts	1.36	1.35	1.32	1.32
Unemployment Rate	4.3	4.5	4.5	4.3
Consumer Price Index	2.7	3.7	2.6	2.1
Core PCE Price Index	2.8	3.2	2.4	2.0
Federal Funds (Upper Target)	4.4	3.7	3.7	3.7

Forecast as of June 1, 2026. Sources: U.S. Bank Economics, Moody's Analytics, and Bloomberg. 1. Projections for real GDP are annual percentage change. Projections for housing starts are in millions, annualized. Projections for the unemployment rate represent annual averages. 2. Projections for the CPI and Core PCE are annual percent change; 3. Interest rate projections represent annual averages and are the views of the U.S. Bank Economics Research Group.

From the desk of the Chief Economist: Household financial health: Beware the averages!

The economy still looks weirdly fine on the surface: low unemployment, decent pay growth and consumers still spending – even if some of that still looks suspiciously like retail therapy with a credit or debit card receipt attached. But the averages are doing what averages do best: smoothing over the mess. Underneath the tidy headline numbers, 401(k) hardship withdrawals are up, delinquencies are rising and more households seem to be financing ‘everyday life’ the hard way.

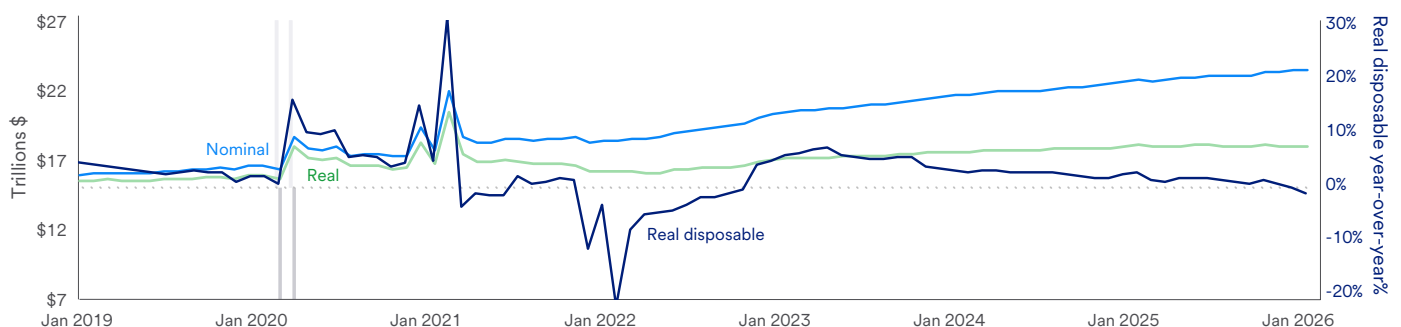
Tomatoes may be an unlikely economic indicator, but they are becoming a useful one. A New York City chef reportedly observed that for many families, buying fresh vegetables is now a real financial decision. That is not the kind of signal that shows up in the headline data, but it says plenty about how stretched some households are from worsening purchasing power.

So yes, the economy is still in expansion territory. But for a growing number of households, it feels like an expansion more in name than in feel. The top-line data says things are fine. But lower income brackets would like a word.

That is the trouble with averages: they are not wrong, just polite (and misleading). They tell you the economy is doing fine. They do not tell you how much pressure sits below the surface.

[Read the full commentary here >](#)

Change in real disposable income now below zero



Source: U.S. Bank Economics, U.S. Bureau of Economic Analysis (BEA), Bloomberg

Consumer spending: Under pressure

The latest data suggest the consumer remains resilient on the surface, but underlying momentum is softening. Real consumption continues to expand at a trend-like ~2% pace – down from stronger gains last year – with the composition becoming less favorable. Goods spending has held up in the near term, but only partially offsets emerging softness in services, where cracks are increasingly evident. The consumer is not rolling over, but the mix of spending points to more fragile underlying demand.

At the same time, household purchasing power is coming under increasing strain. Real disposable personal income has declined in six of the past seven months and is down 1.1% from a year earlier, marking a steady and notable erosion in inflation-adjusted income. This comes at a time when progress on inflation has stalled or, in some cases, reversed – limiting relief on the cost side and intensifying pressure on real incomes. While wage growth remains positive in nominal terms, labor income is losing traction at the margin, suggesting it is no longer providing the same degree of support to consumption as in prior quarters.

U.S. Personal Income and Spending



Source: U.S. Bank Economics, U.S. Bureau of Economic Analysis (BEA), Bloomberg

Households have continued to lean on financial buffers to sustain spending, but those buffers are thinning. The personal saving rate fell to 2.6%, a near four-year low, underscoring increased reliance on a shrinking cushion as income growth lags price pressures. These crosscurrents – across income, balance sheets and credit – point to a gradual erosion in the underlying support for consumption, even as headline activity remains intact. Higher energy prices add to this pressure, offsetting residual support from earlier fiscal tailwinds.

The aggregate picture also masks a widening divergence beneath the surface. Lower- and middle-income consumers face growing constraints from elevated costs and softer sentiment, while higher-income households remain better supported by stronger balance sheets and wealth effects. This uneven footing helps explain why consumption has held up better than income trends alone would suggest, but also highlights limits to that resilience. As income growth slows and financial buffers diminish, the consumer sector appears set to remain under pressure, with slower and less broadly supported spending growth ahead.

U.S. Personal Saving Rate



Source: U.S. Bank Economics, U.S. Bureau of Economic Analysis (BEA), Bloomberg

Labor market: Stability extends

The labor market continues to settle into a narrow equilibrium – one defined by steady but subdued hiring, low layoffs and limited overall churn. Recent employment data reinforce this view. Payroll growth has remained positive, but trend hiring has slowed from prior years, with recent data pointing to modest firming – gains are averaging roughly 100,000 per month in 2026, broadly consistent with a lower breakeven given slower labor force growth. At the same time, the unemployment rate has held broadly sideways near 4.3%, with little directional conviction. Taken together, the headline picture signals resilience but no longer reflects meaningful upside inflation pressure – suggesting conditions remain intact even as underlying momentum has cooled. Recent upside surprises in payroll growth and positive revisions further suggest that the labor market may be stabilizing at a somewhat firmer level than previously indicated.

Beneath the surface, labor demand appears to have stabilized following prior volatility. Indicators such as job openings and

hiring flows have largely stopped declining, suggesting that firms have now calibrated to a slower growth environment rather than pulling back further. Measures of the worker demand gap and vacancy ratios have similarly settled near neutral levels, consistent with a market that has normalized from earlier tightness without experiencing a clear break in demand. At the same time, supply-side dynamics continue to blur signals. Slower labor force growth and a softer participation backdrop are reducing the pace of job creation required to maintain balance, helping to anchor the unemployment rate even as hiring remains subdued. This configuration reinforces the sense of equilibrium – but one with a narrower margin for error should demand soften further.

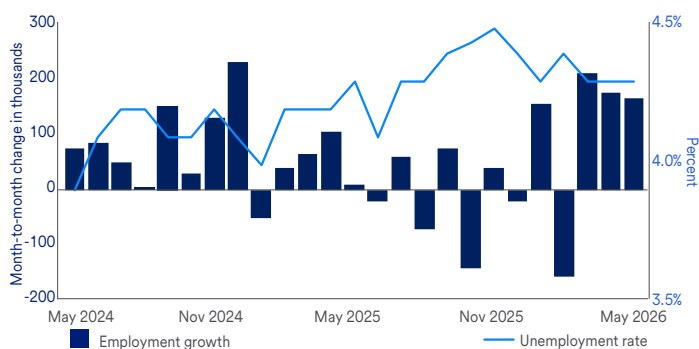
A defining feature of the current environment remains adjustment through restraint rather than retrenchment. Hiring activity is muted and job switching remains limited, but layoffs have yet to reaccelerate in any meaningful way. Jobless claims continue to track at low levels (200-225,000 per week), offering little real-time evidence of rising job losses or a material deterioration in household income flows. Instead, adjustment appears to be increasingly occurring along the margins – through hours, utilization and compensation. The rise in involuntary part-time work points to some softening in labor demand, but stops short of the displacement dynamics typically associated with a broader downturn. At the same time, wage growth has continued to moderate toward the mid-3% range, easing labor-cost pressures – a dynamic consistent with a cleaner disinflation process.

Importantly, structural forces remain supportive of this more gradual adjustment. So far, there is little evidence that emerging technologies, including AI, are having a measurable impact on aggregate employment. To the extent they are influencing the labor market, the effects appear to be showing up more through efficiencies – with productivity growth running around 2.5–3.0% YoY recently, versus roughly 1.5% in the pre-pandemic decade – than outright displacement. This reinforces the view that firms may be able to sustain output with less incremental hiring, particularly in a lower-growth environment.

Looking ahead, we expect the labor market to remain in a state of ‘defensive stability’ in the near term, with payroll growth remaining modest on trend, albeit with some near-term variability following firmer recent readings, and unemployment drifting somewhat higher. Risks, however, are tilted to the downside. In a low-hiring environment, even a modest pickup in layoffs could translate quickly

into higher unemployment. At the same time, the current equilibrium – characterized by easing wage pressures but stable employment – suggests the labor market’s contribution to upside inflation risk has diminished, but not enough to prompt a policy response. For now, labor conditions remain consistent with a patient Fed, with policymakers likely to remain on hold as they assess whether stabilization persists or gives way to softer dynamics into the second half of the year.

U.S. Labor Market



Source: U.S. Bank Economics, U.S. Bureau of Labor Statistics (BLS), Bloomberg

Inflation: Still intact, but increasingly uneven

Inflation dynamics have become more uneven in recent months, complicating what had been a clearer disinflation narrative entering the year. April’s data pointed to a firmer near-term backdrop, with headline PCE rising 0.4% month-over-month (MoM), 3.8% YoY, alongside a more moderate 0.2% monthly gain in core PCE, leaving the year-over-year rate essentially unchanged at 3.3% – still well above the Fed’s 2% target. This divergence reflects a renewed lift from energy prices and temporary factors in shelter, reinforcing that progress toward target is likely to prove protracted and increasingly ‘noisy’ rather than linear.

To be sure, recent firming still appears tied to one-off, supply-side influences rather than a broader reacceleration in underlying inflation. Tariff dynamics, in particular, now appear largely behind us. With most (~80%) of the pass-through absorbed and margins preserved, the impulse to goods prices is fading. As these effects roll off, they should exert a modest but persistent drag on core inflation, helping to re-anchor the broader disinflation process.

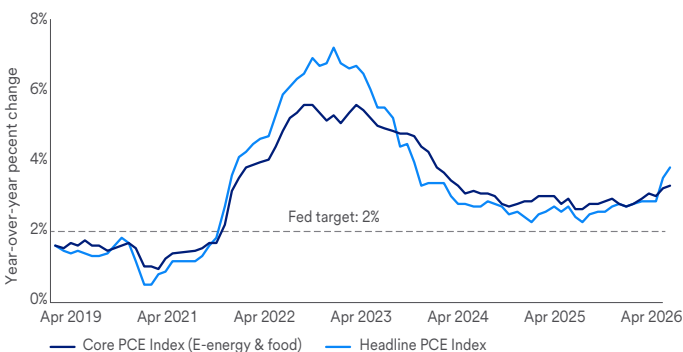
Energy remains the primary source of near-term volatility. Oil-driven price swings – closely tied to geopolitical developments – are contributing to a more stop-start disinflation path. While pass-through into core categories

has been limited so far, early signs of spillovers into airfares and other transportation-related components have emerged. At the same time, consumers’ inflation expectations appear increasingly sensitive to these energy-driven moves, raising the potential for temporary upticks even in the absence of broader underlying pressure.

Beneath this volatility, core inflation continues to moderate, but only gradually and not yet at a pace consistent with a return to target. Across major components, the picture remains mixed. Core goods prices have stabilized following the earlier tariff impulse, with modest disinflation reemerging in select categories. In contrast, housing inflation continues to exhibit periodic firmness, reflecting lagged dynamics in rents and related components. Core services excluding housing – a key gauge of underlying, labor-intensive pressures – has shown more consistent signs of easing, though recent progress remains uneven. Taken together, these crosscurrents suggest that while the direction of travel is favorable, the ‘last mile’ of disinflation is likely to remain slow.

Looking ahead, the outlook is best characterized by continued disinflation, though with a more delayed and uneven path as energy-driven pressures work through the system. A more persistent oil shock risks prolonging that adjustment by feeding into services and inflation expectations, while emerging AI-related price pressures and the potential for broader second-round effects – particularly through transportation and services – add to the uncertainty, even as evidence so far remains limited. In this environment, inflation is unlikely to follow a smooth downward trajectory. Our baseline remains for gradual moderation in core inflation as temporary factors fade, but with greater volatility and less conviction than earlier in the year – leaving policymakers in a lengthier holding pattern as they await clearer evidence of sustained progress toward target.

U.S. Inflation



Source: U.S. Bank Economics, U.S. Bureau of Labor Statistics (BLS), Bloomberg

Monetary policy: From patient hold to conditional optionality

The Federal Reserve remains firmly on hold, but its posture has shifted in recent weeks – reflected in evolving Fed communications – from cautious patience to a more balanced, conditional framework. While the federal funds rate remains at 3.50%–3.75%, the more meaningful change lies in how policymakers are framing risks. What had been an implicit easing bias is giving way to a more neutral stance, with officials emphasizing two-sided risks tied to a mix of supply-side shocks – particularly higher energy prices and tariff pressures. In other words, rather than signaling easing as the likely next step, the Fed is positioning policy to remain unchanged until the data more clearly resolve crosscurrents.

At the center of this shift is the role of the energy shock and broader supply dynamics. The Fed continues to signal a willingness to look through energy-driven increases in headline inflation, but only if those pressures do not feed more persistently into core prices or expectations. In the current environment – where oil, tariffs and other constraints are pushing inflation higher while only gradually weighing on growth and employment – policy is being pulled in opposing directions. This tension favors inaction in the near term, even while preserving a case for eventual easing should disinflation resume or activity soften more materially.

Inflation remains the binding constraint. While some recent firming reflects energy, underlying pressures across services and tariff-sensitive goods continue to point to broader persistence. Moreover, emerging dynamics tied to AI-related investment and pricing have further complicated interpretation, reinforcing the Fed’s reluctance to pre-commit to further rate cuts. Even with long-term expectations still largely anchored, inflation continuing to run above target keeps pressure on the Fed’s credibility, sustaining a high bar for any shift toward accommodation.

At the same time, economic momentum has proven sufficiently resilient to delay any urgency to ease. Growth has softened only modestly, and labor market conditions remain broadly stable, supporting a near-term ‘higher-for-longer’ bias that extends beyond inflation alone. In this environment, the Fed sees little need to respond preemptively to downside risks, instead emphasizing data dependence as a deliberate strategy rather than a placeholder.

Taken together, this backdrop points to a more conditional and increasingly asymmetric reaction function. Holding rates steady has become the default, with the next policy adjustments contingent on clearer evidence that either side of the mandate is deteriorating more meaningfully. While rate hikes remain a tail risk, recent labor market resilience and persistent inflation pressures suggest that likelihood is becoming more tangible, just as deeper cuts could emerge if growth or labor conditions weaken more materially. In that sense, uncertainty itself has become a defining feature of the policy outlook, with a wider distribution of potential outcomes.

Our June baseline reflects this shift toward both patience and caution. We see a high bar for policy accommodation and now expect the Fed to remain on hold through 2027. This view reflects greater concern around the duration of the energy shock and the risk of broader inflation pass-through. That said, underlying disinflationary forces are still likely to reassert themselves once the current series of supply shocks begin to fade – whether through slower tariff pass-through or limited energy spillovers – and incremental labor market softening could eventually reopen the path to rate cuts. For now, however, such developments appear gradual, reinforcing that any renewed policy easing is likely to be delayed rather than imminent, with the balance of risks shifting modestly toward further tightening if resilience persists.

U.S. Bank Economics Research Group June 2026 Macro forecast summary

	Actual		Forecast						Actual	Forecast	
	2025	2026	2026			2027					
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	2025	2026	2027
Economic Data¹											
Nominal GDP	4.2	5.1	6.0	4.9	4.0	4.1	4.1	5.0	5.0	5.5	4.4
Real GDP	0.5	1.6	1.9	1.9	2.1	2.1	2.4	2.5	2.1	2.0	2.2
Consumer Spending	1.9	1.4	1.4	1.6	1.9	2.0	2.0	2.2	2.6	1.9	1.9
Investment	2.3	7.0	6.1	6.5	5.5	5.4	4.2	3.4	1.9	3.5	5.0
Residential Structures	-1.7	-6.2	-0.9	0.0	0.2	1.3	1.9	1.6	-2.2	-3.3	1.0
Non-Residential Structures	-6.5	-5.4	1.3	3.4	2.6	2.6	2.5	2.3	-5.3	-2.9	2.5
Intellectual Property	5.4	11.6	5.3	5.0	5.5	5.5	5.4	5.4	5.6	7.4	5.4
Equipment	4.3	17.2	7.1	9.3	7.8	7.7	5.5	4.0	8.3	9.2	6.7
Change in Inventory	-16.0	-25.7	-6.7	4.6	8.8	10.8	7.1	0.2	28.5	-4.7	7.2
Government Spending	-5.6	4.4	2.2	0.1	1.9	1.3	1.6	1.4	1.1	0.8	1.4
Federal	-16.6	9.5	4.5	1.5	2.3	1.7	2.2	2.2	-1.2	0.0	2.2
State & Local	1.5	1.5	0.8	-0.8	1.6	1.1	1.3	1.0	2.5	1.2	0.9
Imports	-1.0	21.1	4.7	3.7	5.8	6.0	4.0	3.0	2.7	3.5	4.8
Exports	-3.2	13.1	1.3	1.3	3.5	4.2	4.9	4.7	1.6	4.2	3.7
Housing Starts	1,323	1,41	1,36	1,32	1,31	1,31	1,32	1,32	1,36	1,35	1,32
Unemployment Rate	4.5	4.3	4.5	4.6	4.6	4.6	4.5	4.4	4.3	4.5	4.5
Prices²											
Consumer Price Index	2.7	2.7	4.0	4.1	3.9	3.5	2.4	2.3	2.7	3.7	2.6
Core PCE Price Index	2.9	3.1	3.3	3.3	3.2	2.6	2.5	2.3	2.8	3.2	2.4
Interest rates³											
Federal Funds (Upper Target)	4.02	3.75	3.73	3.69	3.69	3.69	3.69	3.69	4.37	3.72	3.69
2-Yr Treasury Note	3.52	3.58	3.93	3.93	3.87	3.86	3.85	3.85	3.81	3.83	3.85
10-Yr Treasury Note	4.10	4.20	4.45	4.53	4.51	4.5	4.5	4.5	4.29	4.42	4.50
30-Yr Freddie Mac Mortgage	6.23	6.11	6.44	6.37	6.29	6.26	6.25	6.25	6.60	6.30	6.25

Forecast as of June 1, 2026. Sources: U.S. Bank Economics, Moody's Analytics, and Bloomberg.

1. Projections for real GDP are quarter-on-quarter percent change at annual rate. Projections for housing starts in millions, annualized. Projections for the unemployment rate represent quarterly/annual averages.

2. Projections for the CPI, GDP Deflator, and Core PCE are year-over-year percent change.

3. Interest rate projections represent quarterly/annual averages, and are the views of the U.S. Bank Economics Group.



The views expressed in this commentary represent the opinion of the author and do not necessarily reflect the official policy or position of U.S. Bank. The views are intended for informational use only and are not exhaustive or conclusive. The views are subject to change at any time based on economic or other conditions and are current as of the date indicated on the materials. It is not intended to be a forecast of future events or guarantee of future results. It is not intended to provide specific advice. It is issued without regard to any particular objective or the financial situation of any particular individual. It is not to be construed as an offering of securities or recommendation to invest. It is not for use as a primary basis of investment decisions. It is not to be construed to meet the needs of any particular investor. It is not a representation or solicitation or offer for the purchase or sale of any particular product or service.

Investors should consult with their investment professional for advice concerning their particular situation. The factual information provided has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness. U.S. Bank is not affiliated or associated with any organizations mentioned.

U.S. Bank and its representatives do not provide tax or legal advice. Each individual's tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.