National Economic Outlook

June 2026

Headlines

- The economy and consumers remained resilient despite higher energy prices during the war with Iran. Now, with oil prices having largely retraced their wartime spike, **lower energy prices should provide a modest tailwind to growth in the coming months.**

- **The labor market has strengthened in 2026**, with job growth rebounding from very weak 2025 levels and becoming more broad-based across industries. The unemployment rate remains stable at around 4.3%, likely reflecting labor force dynamics and survey differences, while wage growth has softened and real incomes are flat.

- **Inflation has moved in the wrong direction this year, a process that began even before the war with Iran**. However, the primary drivers of this year's reacceleration – tariffs, higher energy prices, and AI-related price pressures – should begin to fade in 2H26. Sticky core services inflation remains the primary upside risk.

- **The June FOMC meeting marked a clear hawkish shift**, with policymakers removing their easing bias and signaling that additional rate hikes remain under consideration. While the risk of hikes has increased materially, our base case remains that improving inflation data allows the **Fed to remain on hold** through year-end.

- **Economic activity has remained more resilient than expected**. Labor market conditions continue to improve, consumer spending has held up despite the recent energy shock, and we estimate the economy is expanding at roughly a 2.0% to 2.5% pace.

- Overall we expect real GDP growth of 2.1% in 2026, the unemployment rate to stay relatively stable at around 4.3%, and for core PCE inflation to end the year at 3.3%.

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Data in June was generally good, supportive of continued ~2% growth

The biggest development over the past month has been the better-than-expected (though tenuous) resolution of the conflict with Iran. Oil prices have fallen roughly 24% over the past month, nearly retracing their wartime spike, while traffic through the Strait of Hormuz is starting to normalize. Although risks of re-escalation remain, the de-escalation represents a meaningful improvement in the near-term economic outlook.

Figure 1: Brent crude oil price

Sources: Bloomberg, PNC

Lower oil prices should become a modest tailwind for growth over the next several months while also easing inflationary pressures. Retail gasoline prices typically adjust with a lag, but the decline in crude prices should be enough to push headline CPI into negative territory in June. Lower gasoline prices will improve household purchasing power, although we think many consumers are more likely to rebuild savings depleted during the recent energy price spike than materially increase discretionary spending.

The other major development this month was the first FOMC meeting under Chair Kevin Warsh. The meeting carried a decidedly hawkish tone, reflecting the Committee's growing concern over persistent inflation pressures. While policymakers voted unanimously to leave interest rates unchanged, participants appeared evenly divided over whether rate cuts would be appropriate later this year. As discussed below, we believe the risk of additional rate hikes has increased meaningfully. Even so, our base case remains that the Fed will ultimately choose patience, leaving policy rates unchanged through the remainder of 2026 and likely beyond.

Outside of developments in the Middle East and the June FOMC meeting, incoming economic data have generally come in near expectations. Labor market conditions remain healthier than expected, consumer spending has proven resilient despite higher energy prices, and the economy continues to expand at a comfortable pace of roughly 2.0% to 2.5%.

Labor market rebounds but signals are mixed

The U.S. labor market has picked up steam in 2026. Job growth was very weak last year, with average monthly gains of just 10,000, down from around 120,000 in 2024 and 210,000 in 2023. But this year job growth has averaged better than 110,000 per month through May, including gains of close to 190,000 over the last three months.

Figure 2: Nonfarm job growth, 3M MA

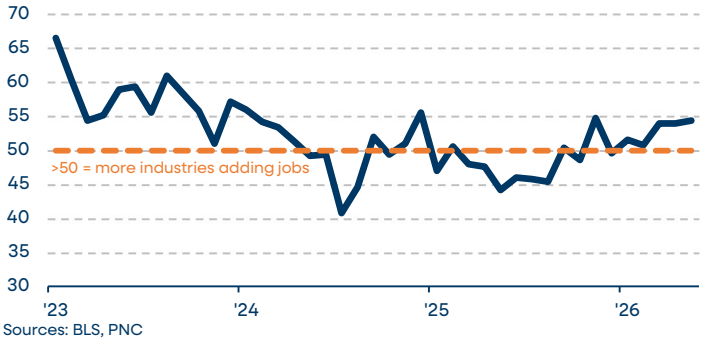
Sources: BLS, PNC

Some of the softness in 2025 came from federal government jobs cuts; employment in the federal government is down by about 300,000 over the past year. But private sector job growth in 2025 was also weak, with average monthly gains of just 25,000.

Not only has overall job growth picked up in 2026, but the breadth of growth across industries has also improved. The diffusion index measures the scope of job growth across industries; a reading of above

50 means more private sector industries are adding employment on net than are reducing employment, while a reading below 50 means employment is declining in more industries than increasing. After spending most of 2025 below 50, the diffusion index has been above 50 in every month of 2026.

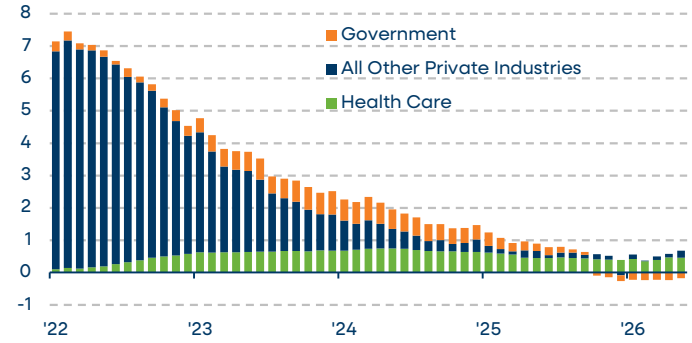
Figure 3: Private sector diffusion index



Sources: BLS, PNC

As job growth has broadened the role of healthcare in job creation has diminished somewhat. In 2025 employment fell in all private sector industries combined excluding healthcare, and government employment was also down with the DOGE cuts. That situation is reversing in 2026; so far this year healthcare has only accounted for about one-third of private sector job gains.

Figure 4: Change in employment from one year ago (millions)



Sources: BLS, PNC

While job growth has picked up in 2026, the unemployment rate has held steady. The unemployment rate briefly hit a more than 50-year low in 2023 at 3.4%, and then gradually increased, up to 4.5% in November 2025. The unemployment rate has been in a narrow range between 4.1% and 4.5% since early 2025, and was 4.3% in March, April, and May of this year.

Figure 5: Unemployment rate

Sources: BLS, PNC

The unemployment rate is the number of people who report that they actively looked for a job in the month but also report that they were not employed, divided by the labor force—the number of people who either worked or looked for a job. This data comes from a survey of households, while the headline job numbers are from a survey of businesses and government establishments. The measures of employment are different across the two surveys: the establishment survey records the number of people employed for pay in the surveyed establishments, while the household survey includes those who worked for pay as well as the self-employed and those who worked unpaid for a family business or for a private household. Also, the establishment survey tracks the number of positions in the U.S., while the household survey tracks the number of people who report they are employed. If a person holds multiple jobs for pay those multiple jobs are counted individually in the establishment survey, but only once in the household survey.

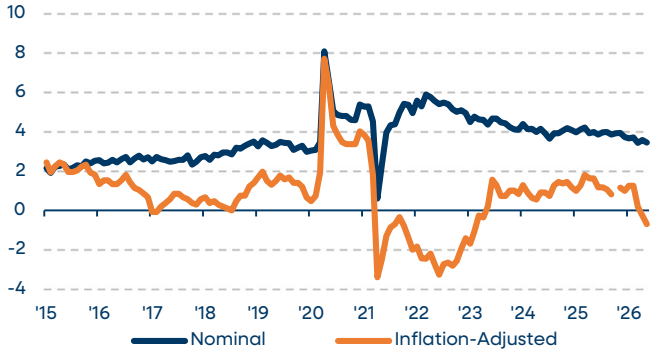
One open question is why the unemployment rate has not fallen more significantly in 2026 given the pickup in job growth this year. It may be that the household survey has been slower to pick up the improvement in the labor market given its smaller sample size. The establishment survey collects data on employment and other labor market outcomes from 620,000 worksites across 120,000 firms and government agencies, covering about one-quarter of total U.S. employment. The household survey,

used to calculate the unemployment rate, is based on responses from about 60,000 households, covering 110,000 individuals, and thus is much smaller and less accurate at any one point in time. For example, in the establishment survey monthly job growth has averaged better than 100,000 this year, while in the household survey job growth has been much weaker, at around 40,000 (after taking into account updates to the population incorporated in January).

Also, policy changes could be affecting the labor force, in turn influencing the unemployment rate. The Trump administration has taken a much harder stance on immigration, deporting many people who were living in the U.S. and discouraging others from emigrating to the U.S. This likely weighed on labor force growth in the U.S. in 2025, meaning little increase in the unemployment rate last year despite very weak job growth. It could be that in 2026 immigration is picking up or some people who left the U.S. last year have returned, meaning that stronger labor force growth has accompanied stronger job growth, with the unemployment rate holding roughly steady. It will take time to determine what exactly is happening to the relationship between job growth and the unemployment rate. But it is fair to say that the labor market is stronger this year than last, even if the unemployment rate is not reflecting that.

One area where the labor market is faring poorly in 2026 compared to 2025 is wage growth. Average hourly earnings were up 3.4% in May from one year earlier before adjusting for inflation. This is tied for the slowest pace of nominal wage growth, outside of pandemic-caused distortions, since early 2020 right before the pandemic. With more slack in the labor market and fewer workers leaving for new positions, businesses do not need to raise pay as quickly to retain talent, even with fewer immigrants in the workforce. With inflation picking up, especially with higher energy prices in the aftermath of U.S. hostilities with Iran, real (inflation-adjusted) wages are now down over the past year.

Figure 6: Average hourly earnings, y/y %



Sources: Bureau of Labor Statitics, PNC

The outlook for the labor market is for slower job growth, below 100,000 per month, in the second half of 2026 and into 2027, with a continued easing in wage growth. Economic growth will be softer in the second half of this year relative to the recent trend as consumer spending growth eases due to slower growth in real incomes. But given weaker labor force growth with reduced immigration levels the unemployment rate will stay right around its current level of about 4.3%, consistent with the Federal Reserve's legislative mandate of "maximum employment." Wage growth will continue to ease, and with continued high inflation real income growth will remain soft.

Are we past peak inflation?

Inflation has reaccelerated in 2026, a process that began well before the temporary spike in oil prices pushed crude above $100 per barrel. Three forces have accounted for most of this acceleration: tariff-related increases in goods prices, higher energy costs, and inflationary pressures associated with the unprecedented wave of AI-related capital spending.

The encouraging news is that each of these three inflation shocks could be approaching their peaks. While inflation remains above the Federal Reserve's target and progress is likely to remain uneven from month to month, we believe the peak impact from tariffs, AI-related price pressures, and higher energy costs is now behind us. As a result of these fading factors, as well as the softening in wage growth referenced earlier, inflation readings should be

better behaved in the second half of the year compared to the first.

Figure 7: Core PCE inflation, year-over-year

Sources: BEA, PNC

The largest contributor to the acceleration in inflation this year has been the rebound in core goods inflation following the implementation of higher tariffs. Core goods CPI was still running negative on a year-over-year basis heading into Liberation Day but has since accelerated to 1.1%. Our modeling suggests that most of this tariff-related price adjustment has now occurred.

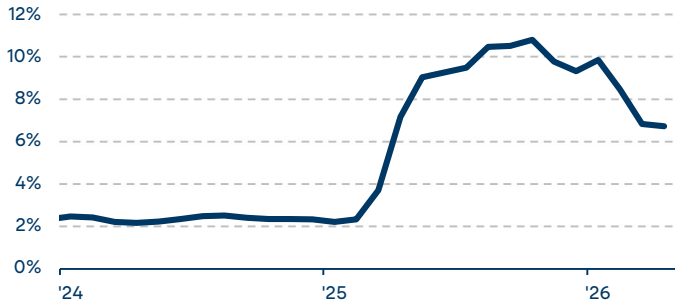
Figure 8: Core goods inflation, year-over-year

Sources: BLS, PNC

One underappreciated factor is timing. Many retailers appear to have delayed passing through tariff-related cost increases during 2025, preferring to preserve pricing stability through the holiday shopping season before implementing larger price increases at the start of 2026. That likely exaggerated the acceleration in goods inflation earlier this year. More recently, however, there are signs that these pressures are beginning to fade. Non-auto goods inflation turned negative in May for the first time since early 2025, suggesting the initial pass-through is already losing momentum.

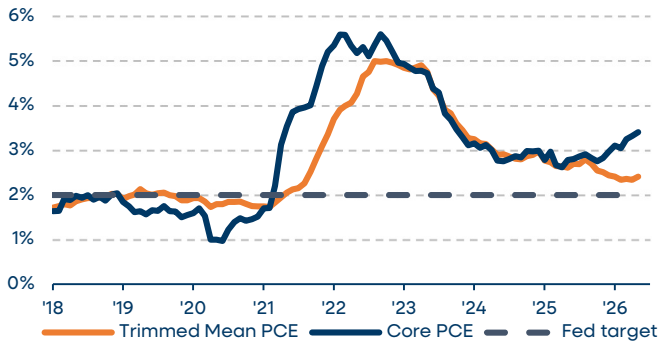
Effective tariff rates have declined in 2026 following the Supreme Court's decision overturning the Administration's use of IEEPA tariffs. While the temporary Section 122 tariffs expire in July, the Administration's proposed Section 201 replacements appear broadly consistent with current effective tariff rates rather than a meaningful escalation. Absent another significant increase in tariffs, trade policy should become less of an inflationary headwind going forward.

Figure 9: Effective tariff rate



Sources: BLS, PNC

Figure 10: Trimmed-mean inflation is looking more stable

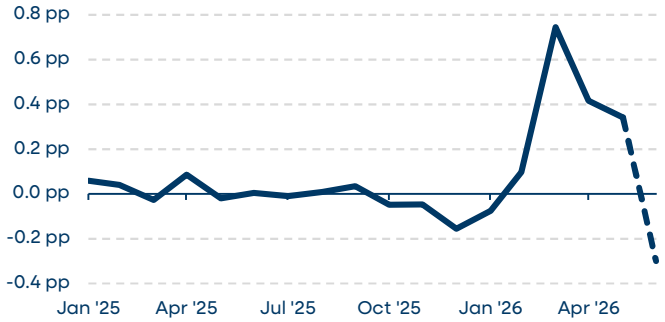


The second inflation shock has come from the AI investment boom. Tight memory chip supply has contributed to higher prices for computer equipment and software, adding an estimated 10 basis points to core PCE inflation over the past year. However, memory price inflation now appears to be easing, and forthcoming BEA methodological changes scheduled for September should reduce the direct influence of higher memory prices on measured inflation, particularly for core PCE. While AI investment will likely remain extraordinarily

strong, its direct contribution to measured inflation should begin to diminish.

The third inflation shock has come from higher energy prices, but this pressure is now fading as well. Brent crude briefly moved above $100 per barrel after the start of the war with Iran, but has since retraced most of that spike and is now back in the low-$70s, only modestly above pre-war levels. With retail gasoline prices typically following crude lower with a lag, the recent decline should begin to ease prices at the pump in July, reducing headline inflation and supporting household purchasing power. Gasoline prices already declined enough in June to subtract roughly 30 basis points from headline CPI when the BLS releases the June print on July 14, likely pushing the monthly headline reading negative absent an offsetting acceleration in food or core prices.

Figure 11: Contribution of motor fuels to headline CPI



Sources: Bloomberg, PNC

Fed remains on hold in baseline, but the risk of hikes has increased

The June FOMC meeting was notable because it firmly put federal funds rate hikes back on the table for the remainder of 2026. Up until June, the Fed maintained an explicit easing bias, meaning policymakers viewed the next policy move as more likely to be a rate cut than a rate hike.

Not only did the FOMC remove that easing bias, but the Committee also appeared evenly split on whether additional rate hikes could be warranted later this year. Though Fed officials have spoken relatively little since the meeting, the combination of worsening inflation and a clearly improving labor market gives the Committee both a reason to hike and greater confidence that doing so would not push the economy into recession.

Whether the Fed could hike and whether it ultimately will are two different questions. The primary reason we continue to expect rates to remain unchanged is that we believe a narrow majority of FOMC participants will prefer to take a wait-and-see approach over the next several months. Inflation has undoubtedly moved in the wrong direction this year, but many of the forces driving that reacceleration—including tariffs, higher energy prices, and AI-related price pressures—now appear to be fading.

Another factor to consider is new Fed Chair Warsh's stated preference for trimmed-mean inflation measures to play a more prominent role in guiding monetary policy. Given the range of specific but relatively narrow inflationary forces that have kept headline inflation elevated, trimmed-mean measures suggest a more stable underlying inflation environment.

September is probably the first meeting where a rate hike would be a realistic possibility. By then, however, we expect the inflation outlook to look more constructive than it does today, reducing the urgency for additional tightening. As a result, our baseline remains that the Fed holds rates steady through the remainder of 2026, even as the risk of additional hikes has risen materially.

Additional charts and tables

Table 1: Baseline U.S. Economic Outlook, Summary Table

Indicator	25Q3	25Q4	26Q1	26Q2f	26Q3f	26Q4f	27Q1f	2025	2026f	2027f	2028f
Output											
Nominal GDP ($bn)	31,098	31,423	31,819	32,351	32,670	33,045	33,390	31,423	33,045	34,408	35,827
Percent Change Annualized	**8.3**	**4.2**	**5.1**	**6.9**	**4.0**	**4.7**	**4.2**	**5.4**	**5.2**	**4.1**	**4.1**
Real GDP ($bn, '17 SAAR)	24,027	24,056	24,180	24,320	24,446	24,569	24,683	24,056	24,569	25,029	25,531
Percent Change Annualized	**4.4**	**0.5**	**2.1**	**2.3**	**2.1**	**2.0**	**1.9**	**2.0**	**2.1**	**1.9**	**2.0**
Consumer Spending	16,586	16,665	16,688	16,763	16,840	16,908	16,980	16,665	16,908	17,190	17,500
Percent Change Annualized	**3.5**	**1.9**	**0.5**	**1.8**	**1.8**	**1.6**	**1.7**	**2.1**	**1.5**	**1.7**	**1.8**
Business Fixed Investment	3,688	3,710	3,804	3,869	3,918	3,961	4,004	3,710	3,961	4,134	4,291
Percent Change Annualized	**3.2**	**2.4**	**10.6**	**6.9**	**5.3**	**4.4**	**4.4**	**5.6**	**6.8**	**4.4**	**3.8**
Residential Investment	764	761	746	741	738	736	736	761	736	748	772
Percent Change Annualized	**-7.1**	**-1.7**	**-7.8**	**-2.5**	**-1.6**	**-1.0**	**0.1**	**-3.8**	**-3.3**	**1.6**	**3.2**
Change in Private Inventories	-24	-16	-17	-10	1	18	18	-16	18	22	32
Net Exports	-955	-969	-1,002	-1,020	-1,039	-1,052	-1,067	-969	-1,052	-1,102	-1,143
Government Expenditures	4,015	3,957	4,000	4,016	4,027	4,038	4,050	3,957	4,038	4,076	4,118
Percent Change Annualized	**2.2**	**-5.6**	**4.4**	**1.6**	**1.1**	**1.0**	**1.2**	**-1.2**	**2.0**	**0.9**	**1.0**
Industrial Production (*'12 = 100*)	102	101	102	103	103	104	105	101	104	107	110
Percent Change Annualized	**2.1**	**-1.8**	**2.1**	**3.6**	**3.0**	**2.7**	**2.3**	**1.6**	**2.9**	**2.7**	**2.5**
Capacity Utilization (*Percent*)	76.2	75.6	75.7	76.2	76.4	76.6	76.9	75.6	76.6	77.6	78.4
Prices											
CPI (% Change Ann.)	3.1	2.5	3.6	5.0	1.8	2.1	2.0	2.7	3.1	2.0	2.1
Core CPI Index (% Change Ann.)	3.2	2.0	2.8	3.2	2.8	2.5	2.3	2.7	2.8	2.2	2.2
PCE Price Index (% Change Ann.)	2.8	2.9	4.5	5.2	1.9	2.2	2.0	2.8	3.4	1.9	1.9
Core PCE Price (% Change Ann.)	2.9	2.7	4.4	3.5	2.9	2.6	2.3	2.9	3.3	2.2	2.0
GDP Price Index (% Change Ann.)	3.7	3.7	3.5	3.9	1.9	2.6	2.3	3.3	3.0	2.2	2.1
Crude Oil, WTI ($/Barrel)	65.8	59.6	72.7	94.6	79.1	77.4	76.5	59.6	77.4	75.7	75.8
Case-Shiller HPI (% Change Ann.)	-0.2	3.4	2.0	0.0	0.0	1.0	1.0	1.3	0.8	1.0	1.0
Labor Markets											
Payroll Jobs (*Millions*)	158.5	158.4	158.6	159.0	159.2	159.4	159.6	158.4	159.4	160.3	161.2
Percent Change Annualized	**0.1**	**-0.2**	**0.3**	**1.1**	**0.6**	**0.5**	**0.5**	**0.2**	**0.6**	**0.5**	**0.6**
Unemployment Rate (*Percent*)	4.3	4.5	4.3	4.3	4.3	4.3	4.3	4.5	4.3	4.2	4.2
Avg. Wkly Hours, Prod. Works.	33.7	33.7	33.8	33.8	33.8	33.8	33.8	33.7	33.8	33.9	33.9
Personal Income											
Average Hourly Earnings (*$*)	31.5	31.8	32.0	32.3	32.6	32.8	33.1	31.8	32.8	33.8	34.9
Percent Change Annualized	**3.6**	**3.8**	**3.3**	**3.4**	**3.1**	**3.1**	**3.1**	**3.9**	**3.3**	**3.1**	**3.1**
Real Disp. Income (*2017 $bn*)	18,071	18,030	18,066	17,993	18,074	18,177	18,286	18,030	18,177	18,628	19,060
Percent Change Annualized	**1.0**	**-0.9**	**0.8**	**-1.6**	**1.8**	**2.3**	**2.4**	**1.0**	**0.8**	**2.5**	**2.3**
Interest Rates (%)											
Prime Rate	7.4	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Federal Funds	4.25	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
3-Month Treasury Bill	4.0	3.6	3.7	3.7	3.7	3.7	3.7	3.6	3.7	3.7	3.7
10-Year Treasury Note	4.1	4.1	4.2	4.5	4.4	4.2	4.2	4.1	4.2	4.2	4.2
30-Year Fixed Mortgage	6.4	6.2	6.2	6.4	6.3	6.2	6.2	6.2	6.2	6.2	6.2

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