FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economic Conditions

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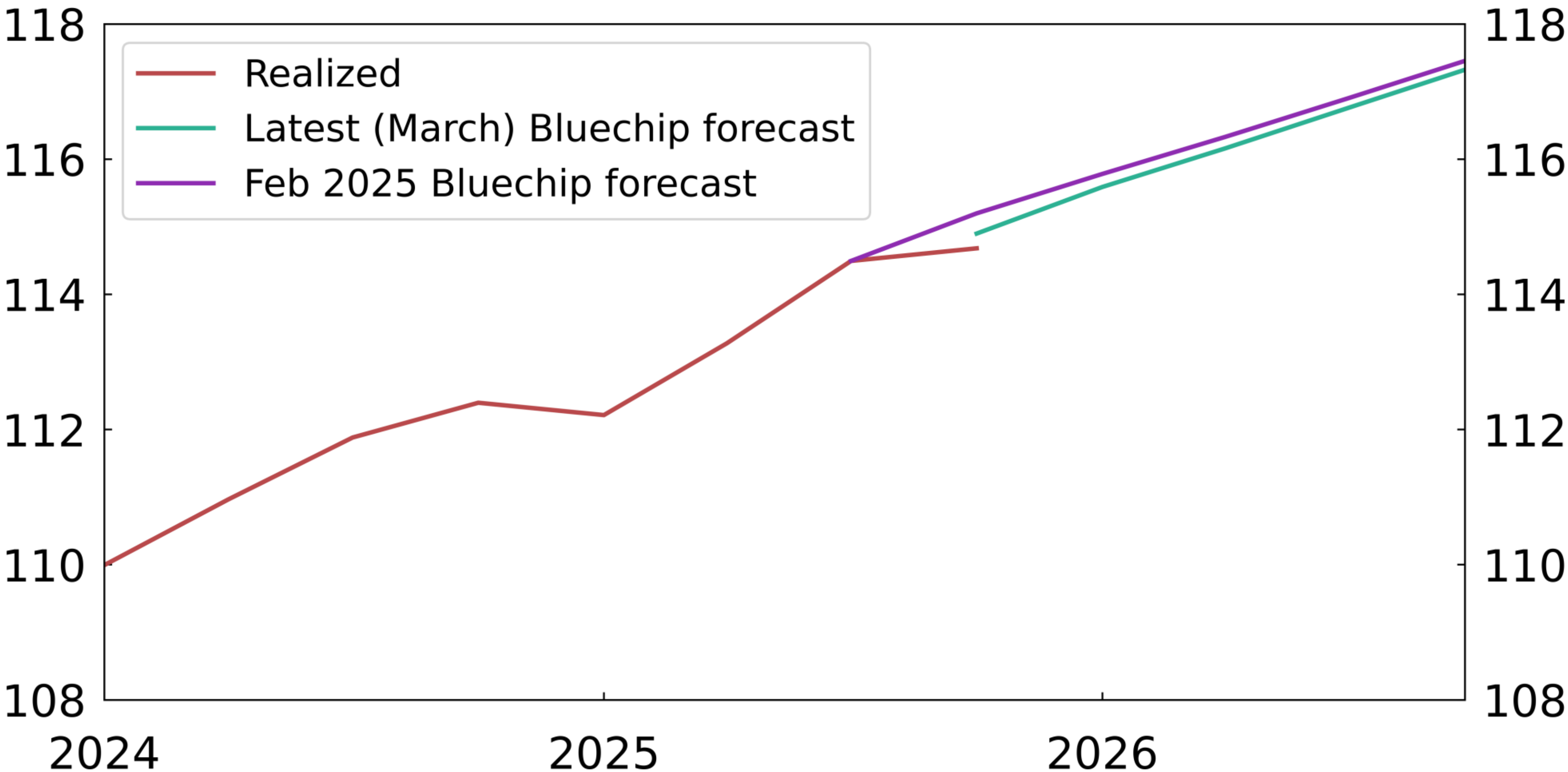
Overview

- Prior to recent geopolitical events, the U.S. economy was on a path of solid growth and disinflation over the medium term
- While this path remains likely, there is high uncertainty around outlook projections. Middle East conflict skews risks to economic activity to the downside and inflation risks to the upside
- Real GDP growth was solid in 2025. Private forecasters expect similar growth in 2026
  - Resilience in consumer spending, mostly by high-income households. Strong business spending on AI-related equipment. Tailwinds from fiscal policy
  - Higher productivity growth trend pushes potential longer-run growth upward
  - Offsetting effects from demographic and immigration effects on labor supply
- Labor market indicators provide mixed signals
  - Unemployment rate has been broadly stable in recent months
  - Low levels of hiring and separation rates: low-hire, low-fire job market
  - Household sentiment about the labor market is deteriorating
- Inflation remains somewhat elevated above FOMC target
  - Pass-through of higher tariffs has impacted core goods price inflation. To the extent this is a price-level effect, it should recede over time
  - More recently, significant increase in energy prices will boost overall inflation. Too early to say how persistent these effects will be

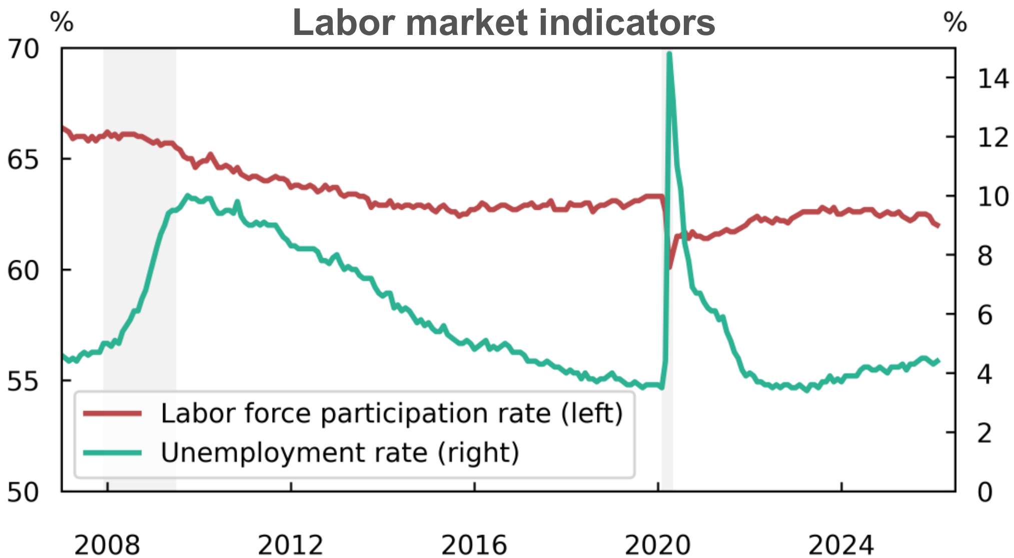
Economy displays resilience

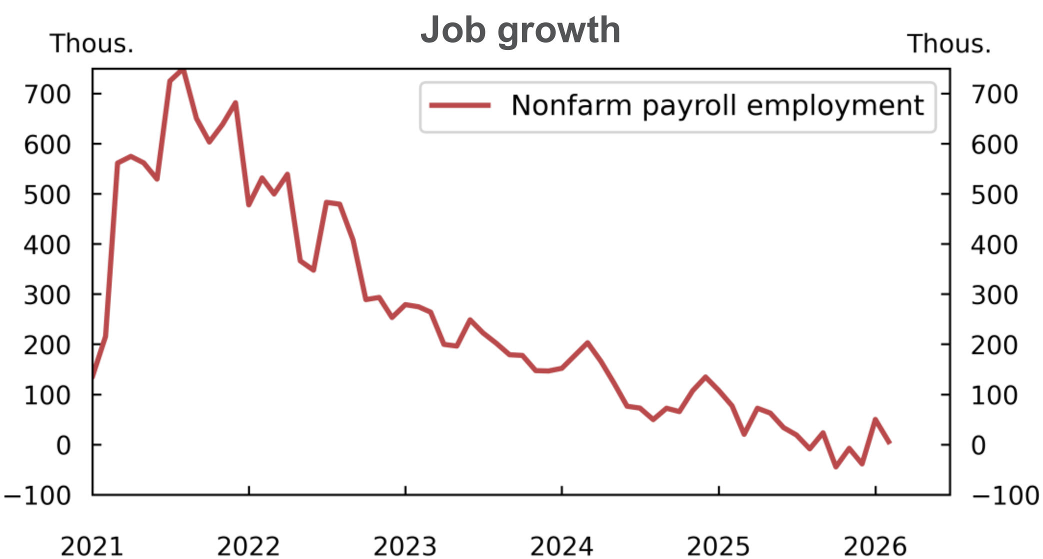


- GDP grew at a 2.2% rate in 2025, slower than 2024 but above estimates of potential longer-run growth.
- Data so far suggest solid 2026:Q1 growth.

Sources: Bureau of Economic Analysis, Blue Chip Economic Indicators
Notes: GDP and forecasts are % of 2019Q4 real GDP level.

Labor market has cooled since 2025

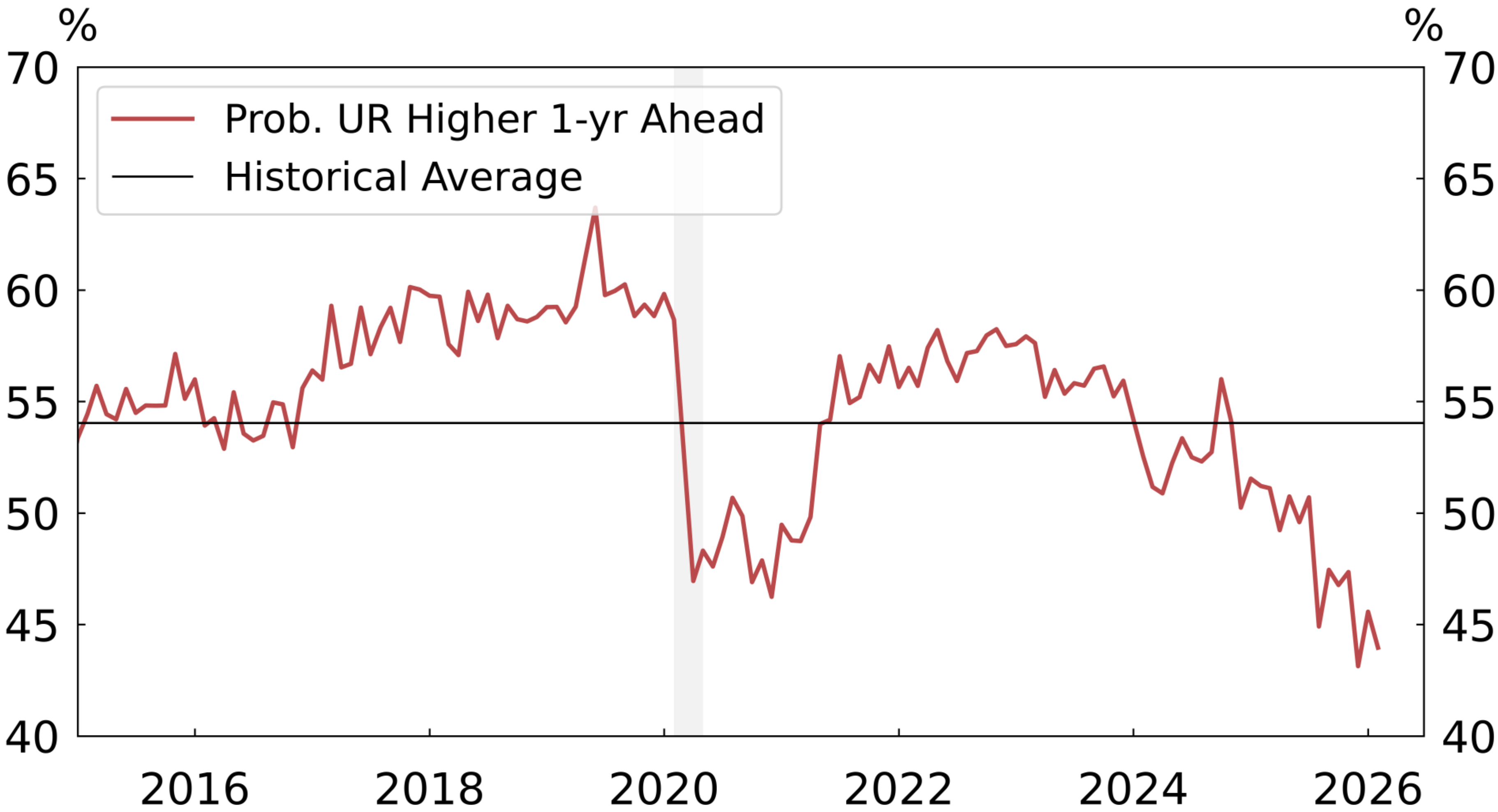




- The unemployment rate has not changed much over recent months and was 4.4% in February.
- Labor force participation has fluctuated within a narrow range.
- Job growth has been weak in recent months and has slowed over the course of 2025.
- Overall, labor market conditions have softened in recent months. Slackness seems to have stabilized around levels prevailing ten years ago

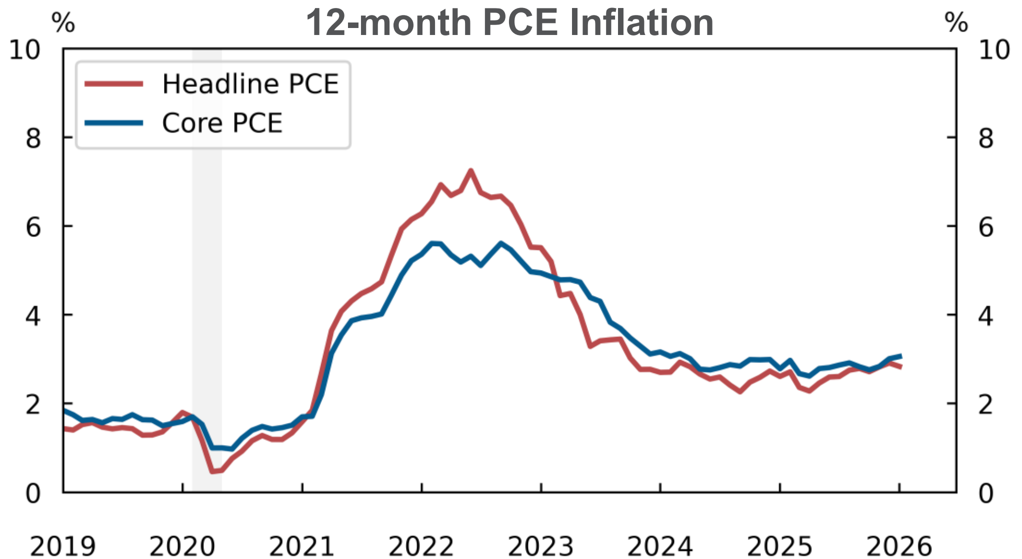
Source: Bureau of Labor Statistics via Haver Analytics.
Note: Shading shows NBER recessions. Oct. 2025 labor market indicators interpolated. Job growth shows 3-month moving average.

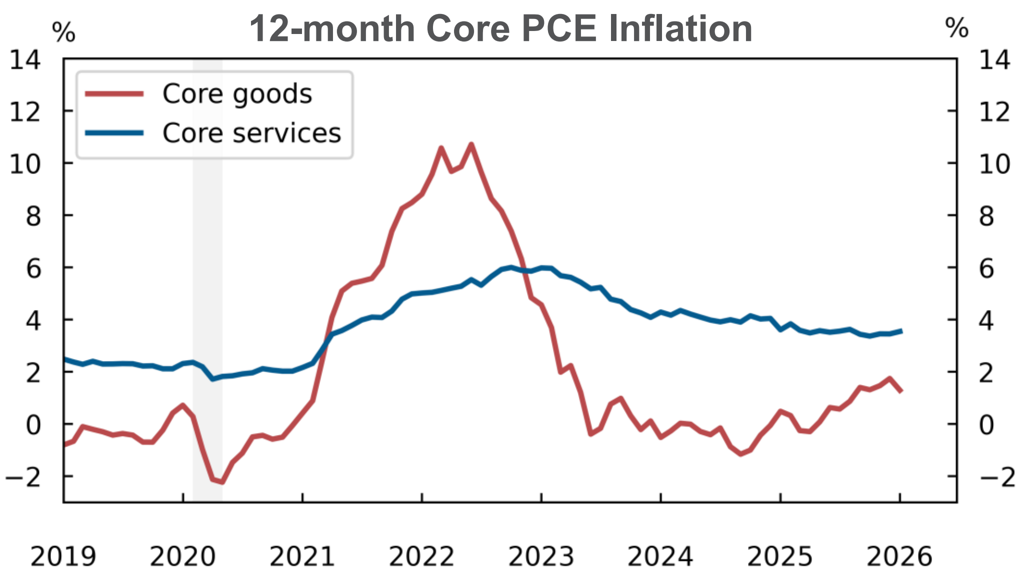
Households express concern about finding jobs



Source: NY Fed Survey of Consumer Expectations via Haver Analytics.
Note: Shading shows NBER recessions.

Inflation remains somewhat elevated





- Overall PCE inflation at the end of 2025 was 2.9 percent. Likely to move higher in 2026:H1 reflecting higher energy prices
- Core PCE inflation has changed little over the course of 2025. Private forecasters expect some disinflation in 2026-7
- Core goods inflation has risen in 2025, likely reflecting one-off tariff effects.
- In contrast, core services inflation has moderated somewhat.
- No signs of unmoored longer-term inflation expectations, but short-term expectations may move up as energy prices increase

Source: Bureau of Labor Statistics via Haver Analytics.