



FEDERAL RESERVE BANK *of* NEW YORK

U.S. Economic Conditions

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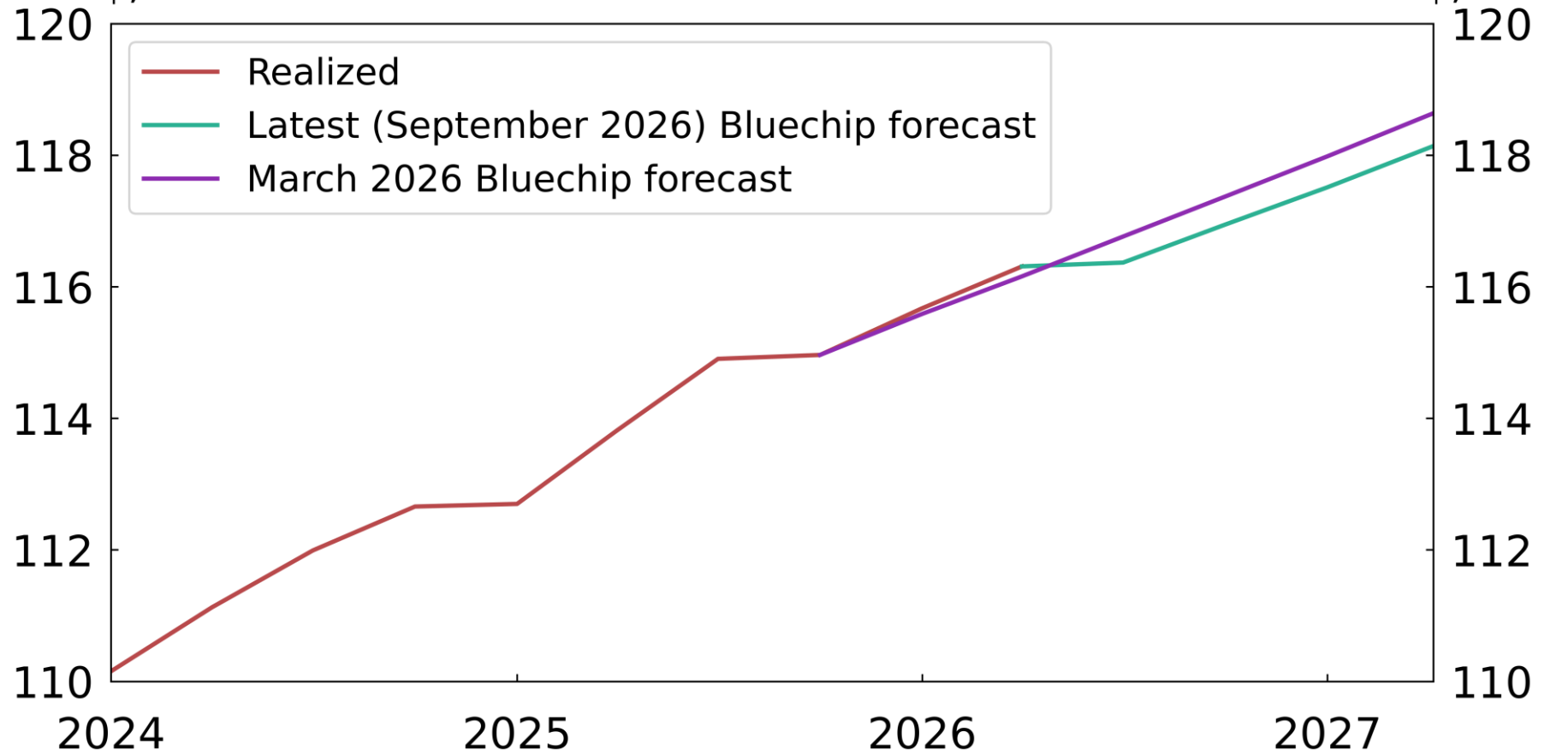
Overview

- Prior to recent geopolitical events, the U.S. economy was on a path of solid growth and disinflation over the medium term.
- There is high uncertainty around the outlook: Inflation risks to the upside and balanced risks to growth.
- Real GDP growth solid in 2026H1, private forecasters expect this to continue in H2 and 2027.
 - 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 trends 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.
- Inflation remains elevated above FOMC target.
 - Pass-through of higher tariffs impacted core goods price inflation. This was mostly a price-level effect that has receded.
 - More recently, significant increase in energy prices has boosted overall inflation, but relatively little spillover
 - AI-led investment has driven prices for related goods.



Economy displays resilience

2017 \$, Bils.



- GDP grew solidly at a 2.2% rate in 2026Q2 and 2.5% in 2026Q1.
 - Consumption growth has been stable, but swings from more volatile factors.
- Data so far suggest solid 2026:Q3 growth, probably even faster than Q2
 - Incoming stream has mostly revised upwards professional forecasts

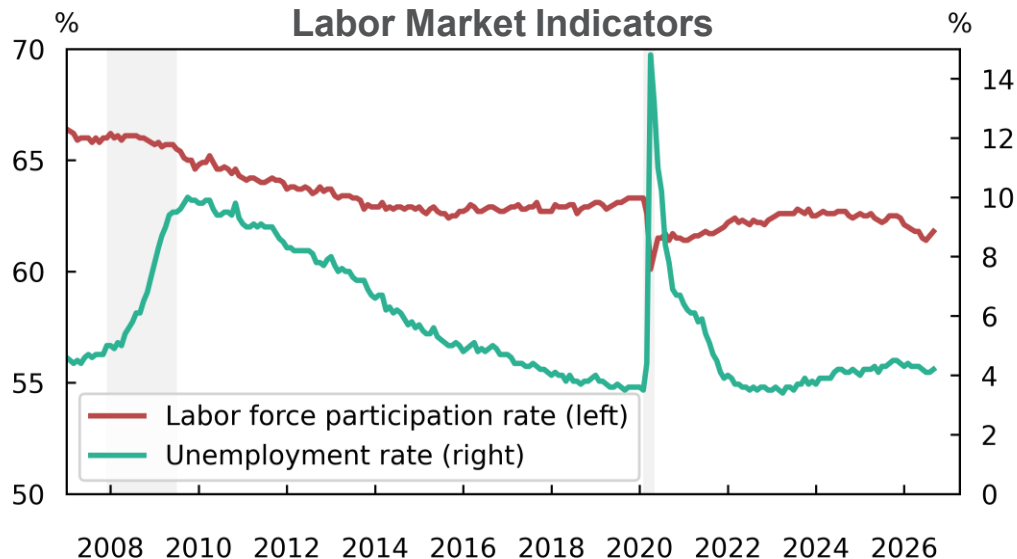
Sources: Bureau of Economic Analysis, Blue Chip Economic Indicators.

Notes: GDP and forecasts are % of 2019Q4 real GDP level.



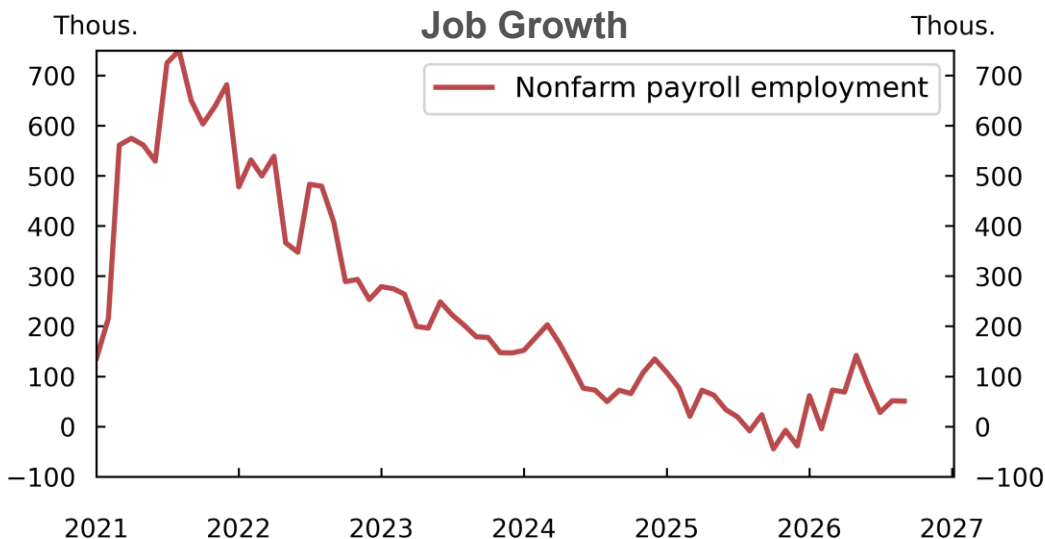
Labor market stabilized

Labor Market Indicators



- The unemployment rate has come down very slowly, between 4.1 and 4.2%.
- Labor force participation growth has fluctuated within a narrow range near zero.
- Job growth has been weak in recent months but reflects labor force growth.
- Overall, labor market conditions are stable with some slack that could decline with continued fast growth.

Job Growth

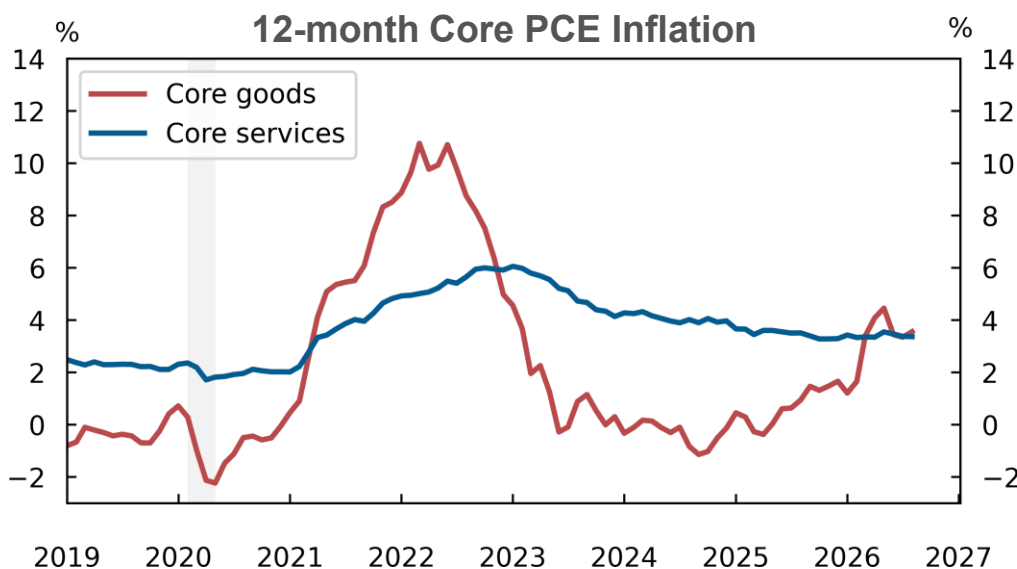
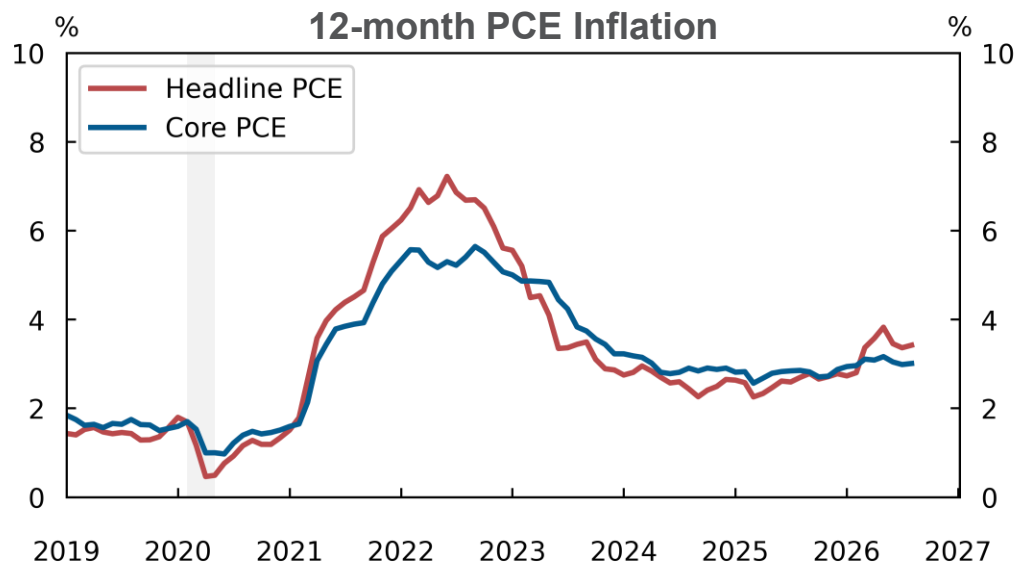


Source: Bureau of Labor Statistics via Haver Analytics.

Note: Shading shows NBER recessions. Oct. 2025 labor market indicators interpolated. Job growth shows 3-month moving average.



Inflation remains somewhat elevated



- Core PCE inflation rose slightly over 2026H1. Private forecasters expect disinflation in 2027.
- Overall PCE inflation has fluctuated with energy prices and private forecasters see it falling with core over 2027
- Core goods inflation rose in 2025 through 2026H1, likely reflecting one-off tariff effects.
- In contrast, core services inflation had moderated until energy prices filtered through to some services.
- No signs of unmoored longer-term inflation expectations, but short-term expectations rose somewhat with energy prices.