

The U.S. Economy: National Economic Outlook

**2026 NYSEDC Annual Meeting
Cooperstown, New York**

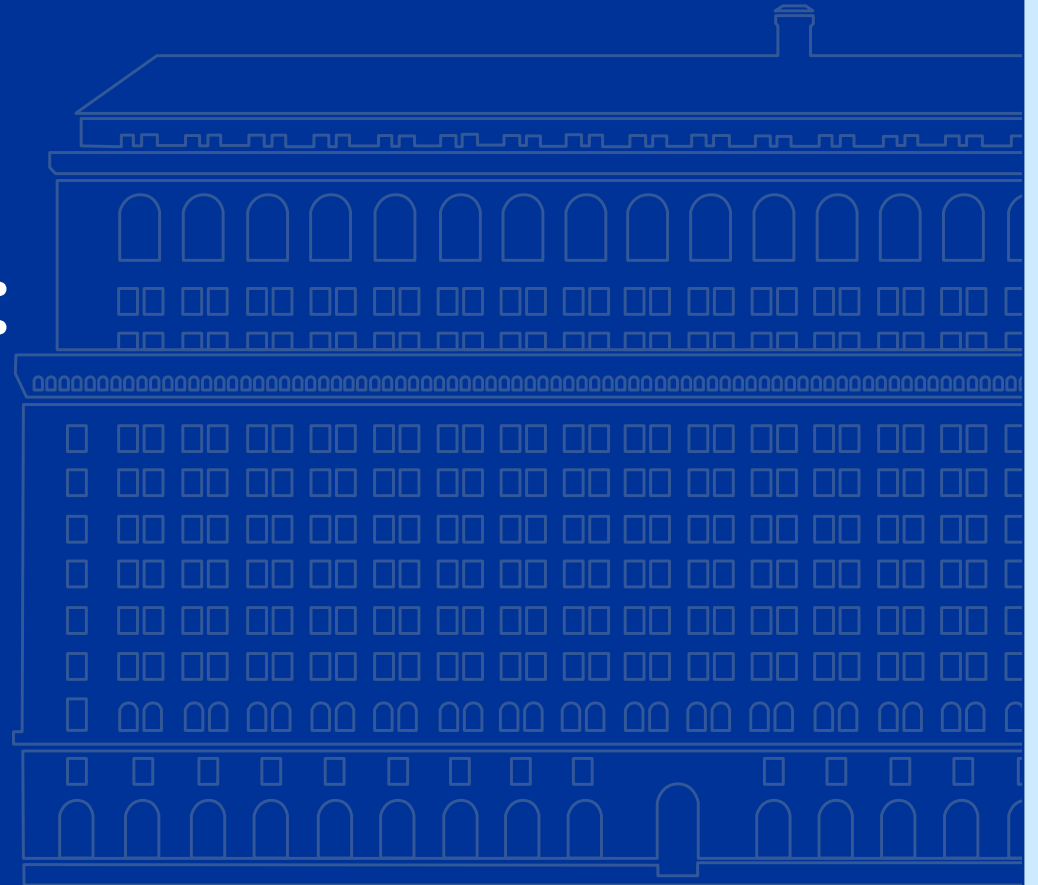
May 22, 2026

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Slides prepared by Elizabeth Li and William Zeng

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U.S. Economic Conditions: Just Keep Swimming

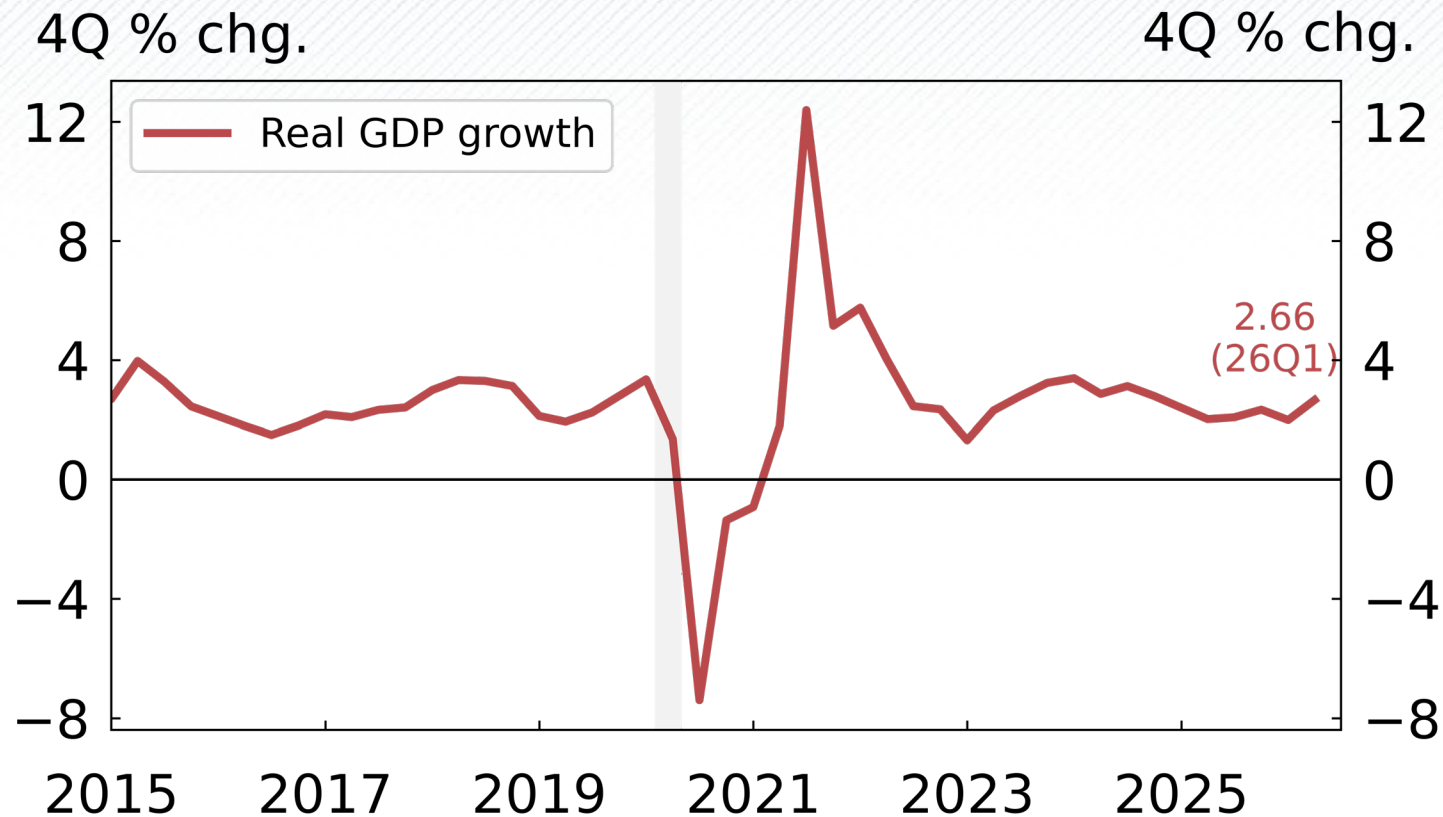


Current U.S. Economy: Strong but Cooling

- **Growth:**
 - Expecting 2026 real GDP to grow above trend, at around 2.5%.
- **Labor market:**
 - Conditions remain steady, slight decline (4.3% unemployment rate as of April 2026).
- **Inflation:**
 - Above target: March 2026 core PCE inflation at 3.2%. That is not close enough.
- **Economy appears to be *softening but resilient*:**
 - New York Fed's HPW Labor Market Tightness Index was -0.02 in March 2026, and three-month wage growth was -0.10. This implies wage growth below historical average.
 - Consumer spending remains robust at 0.24% m-o-m (2.12% y-o-y) in March.

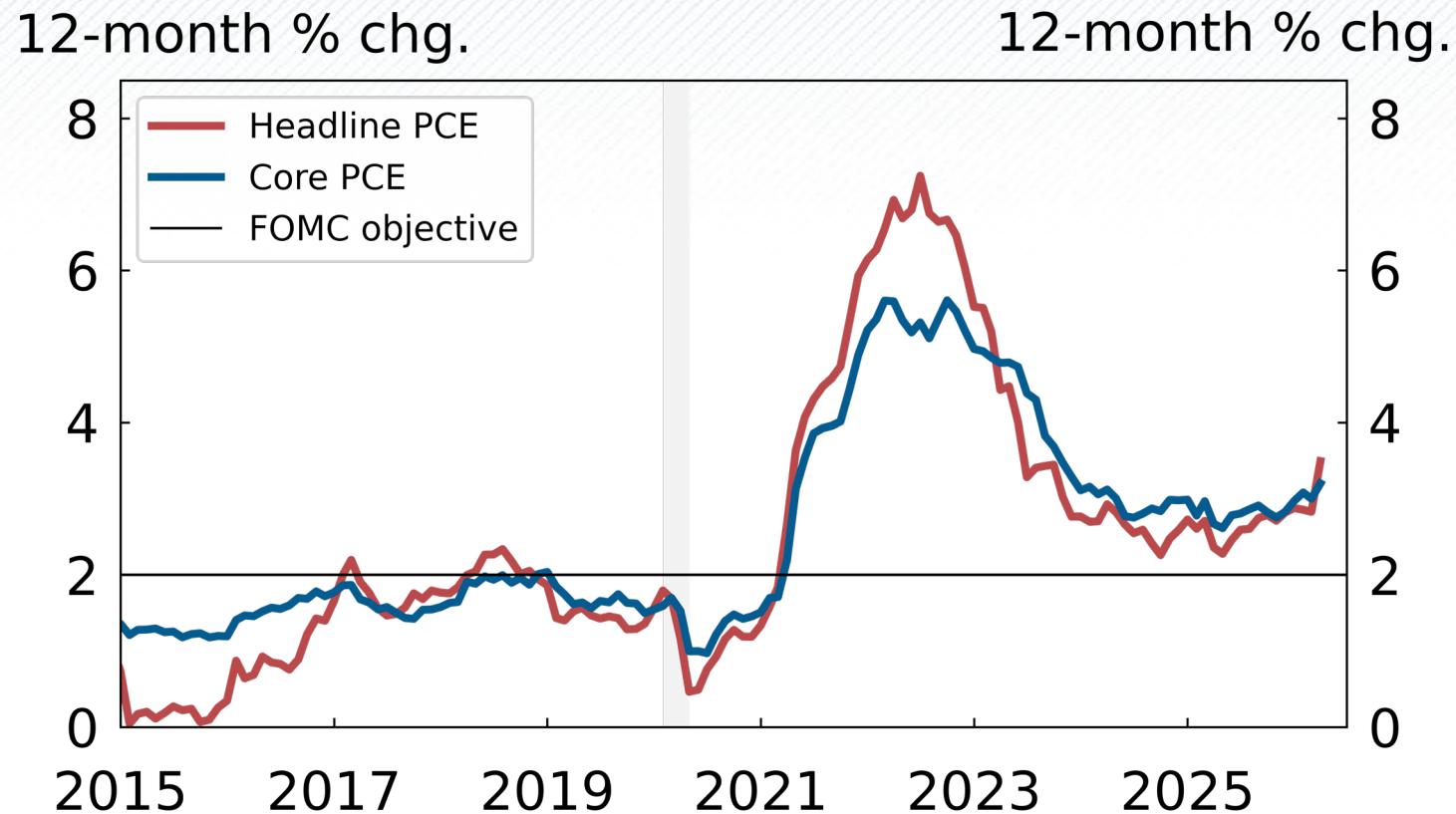
GDP

- Real GDP increased at a 2.5% average annual rate in H2 2025, bringing four-quarter growth to 2.0%.
- Private forecasts for growth are at roughly 2% in 2026.



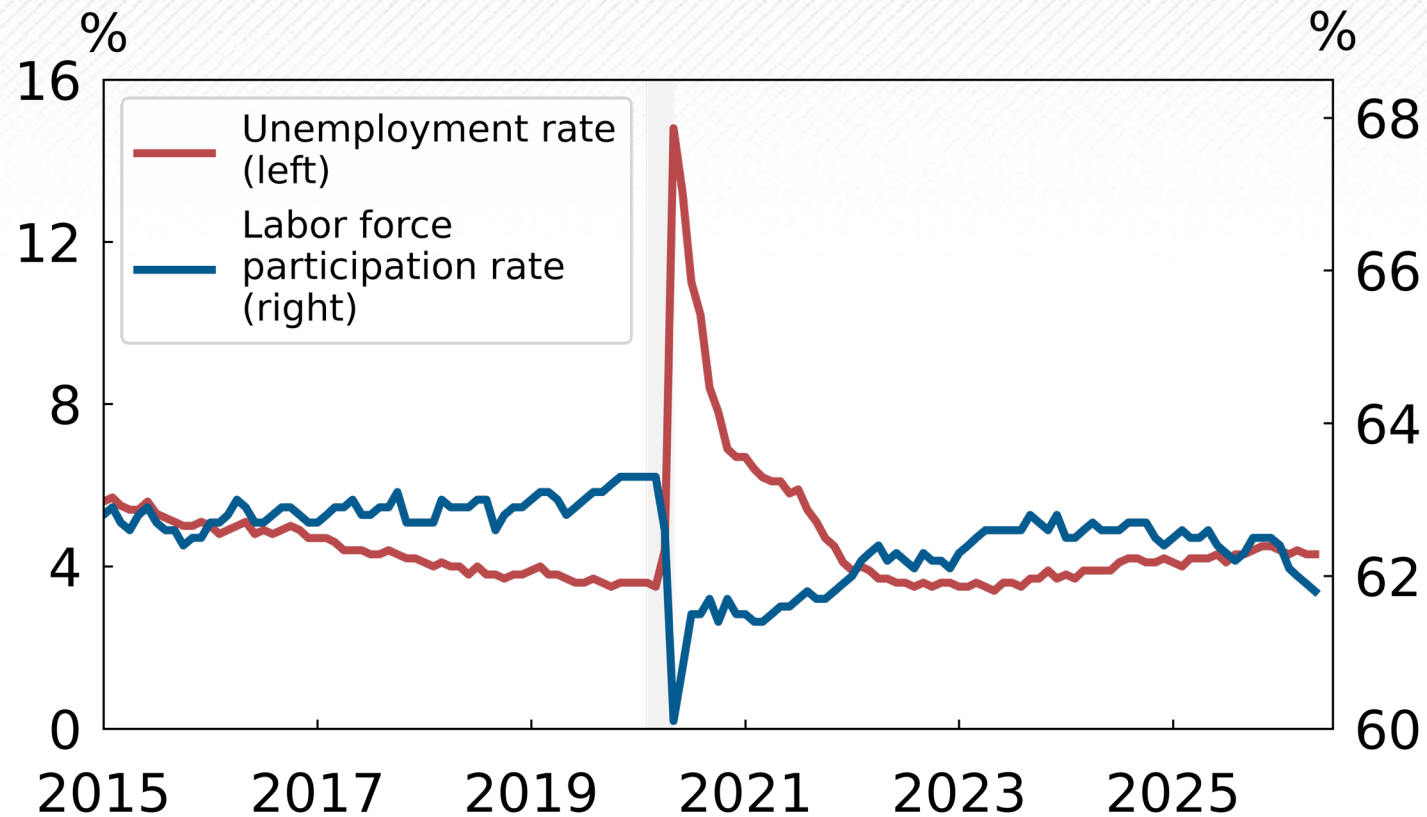
Inflation

- PCE inflation was 3.5% in March, up substantially from February's 2.8%.
- Core PCE inflation was 3.2% in March. Goods price inflation has remained elevated, reflecting passthrough from tariffs.



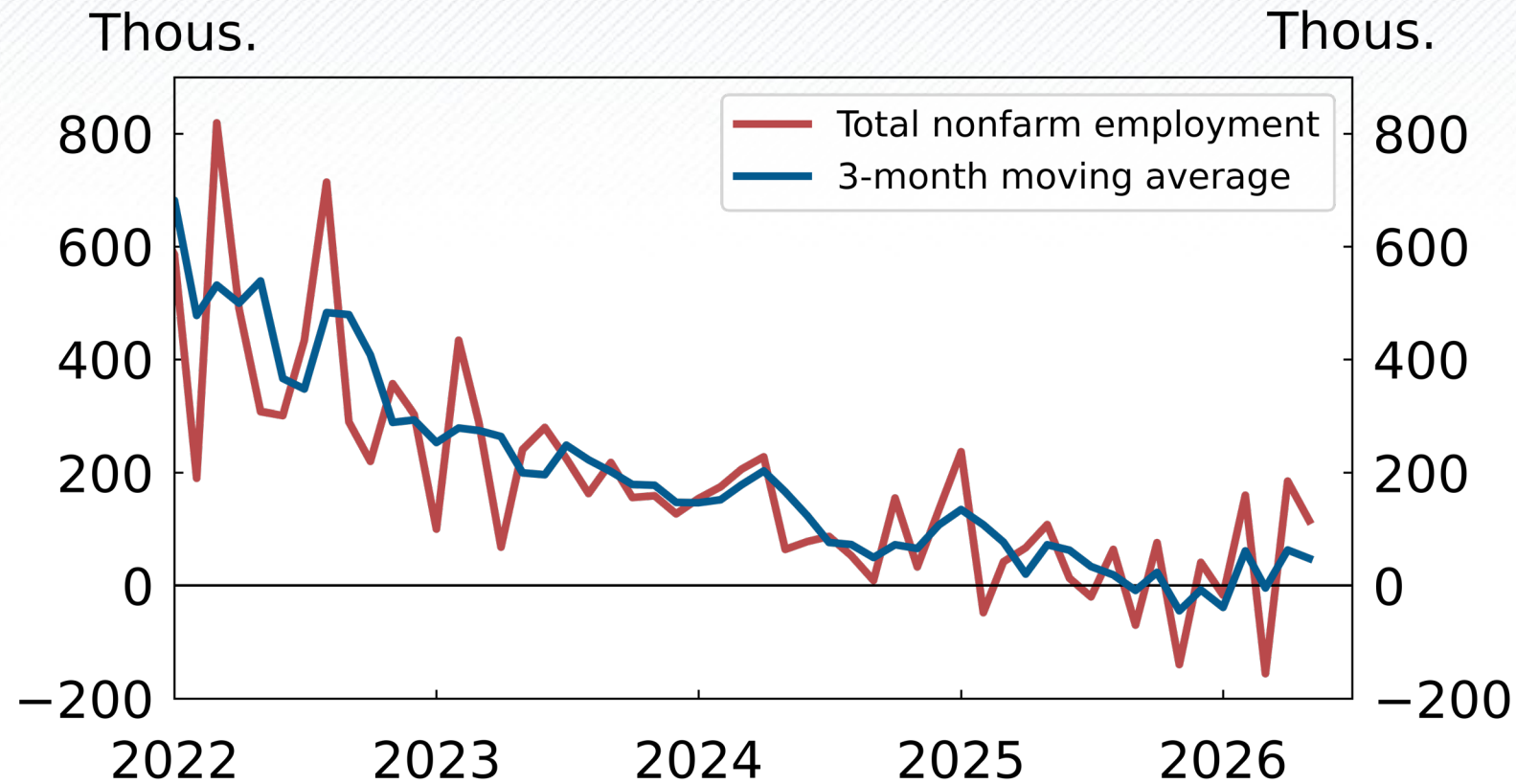
Labor Market – Household Side

- Unemployment is little changed from six months ago; participation is down slightly.
- Other indicators are steady, points to a “softish” labor market with no signs of sharp deterioration.



Labor Market – Employer Side

- Payroll employment growth has fallen to roughly zero, reflecting declines in both labor supply and demand.
- Uncertainty about the “new normal” for labor force growth is considerable.

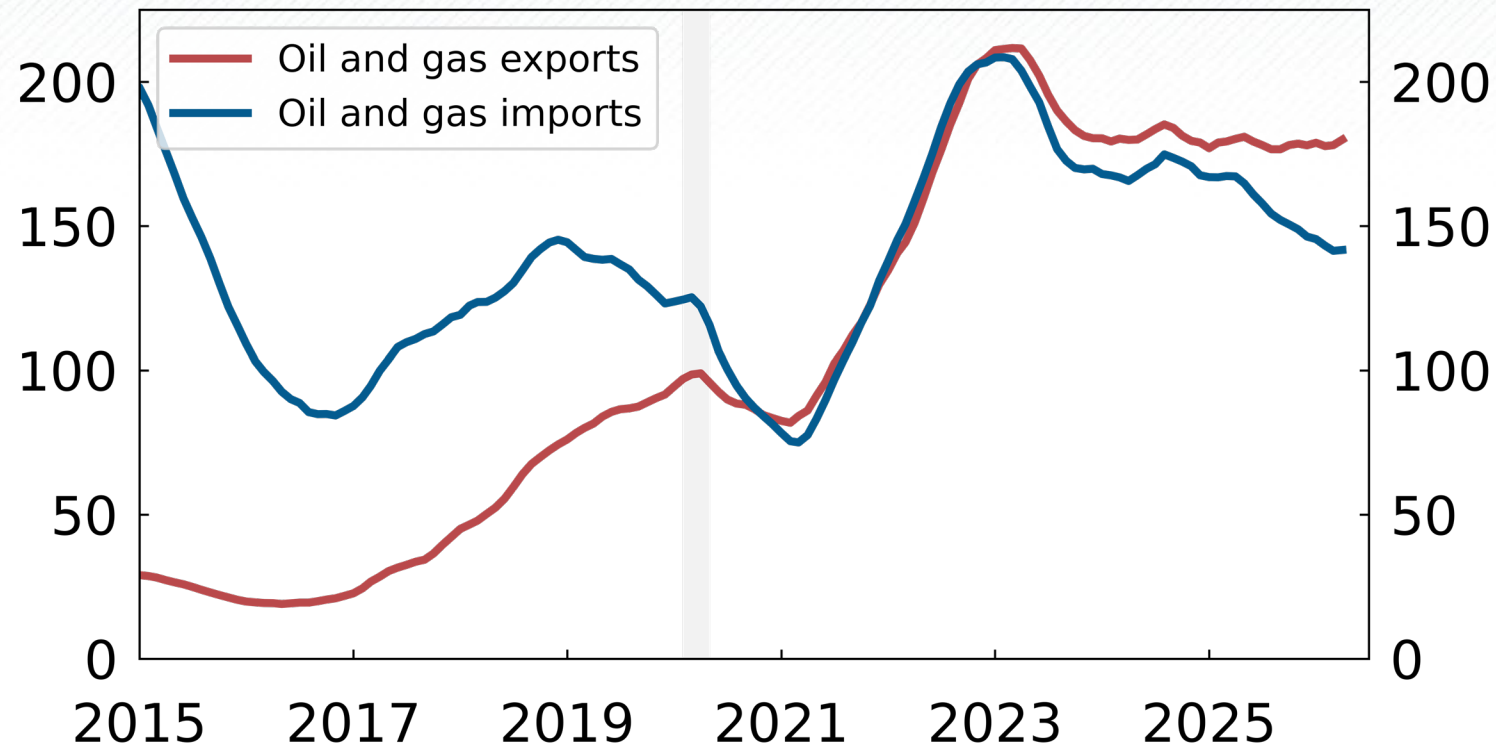


Oil Trade

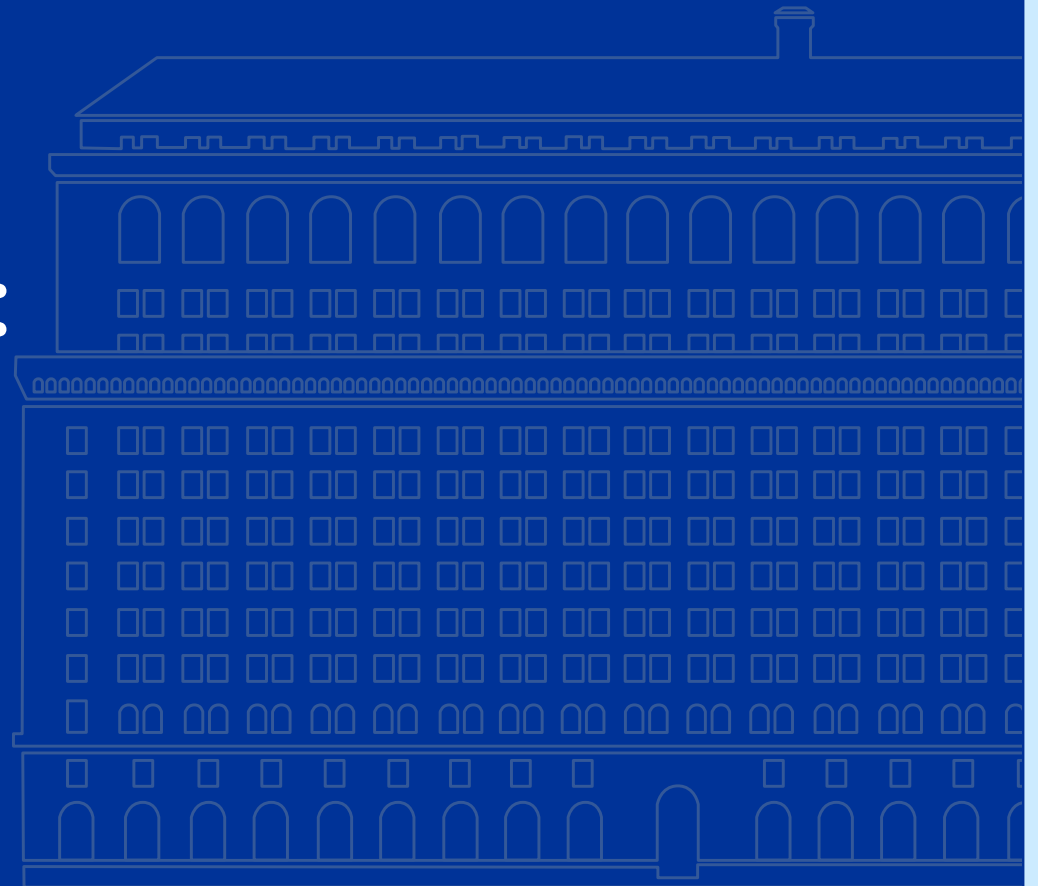
- Recent petroleum surplus, at about \$60 billion, amounts to 0.2% of GDP. Growth impact from higher oil prices not yet fully known.
- Consumers are more exposed: spending on energy goods is about 2% of PCE.

2017 \$, bils.

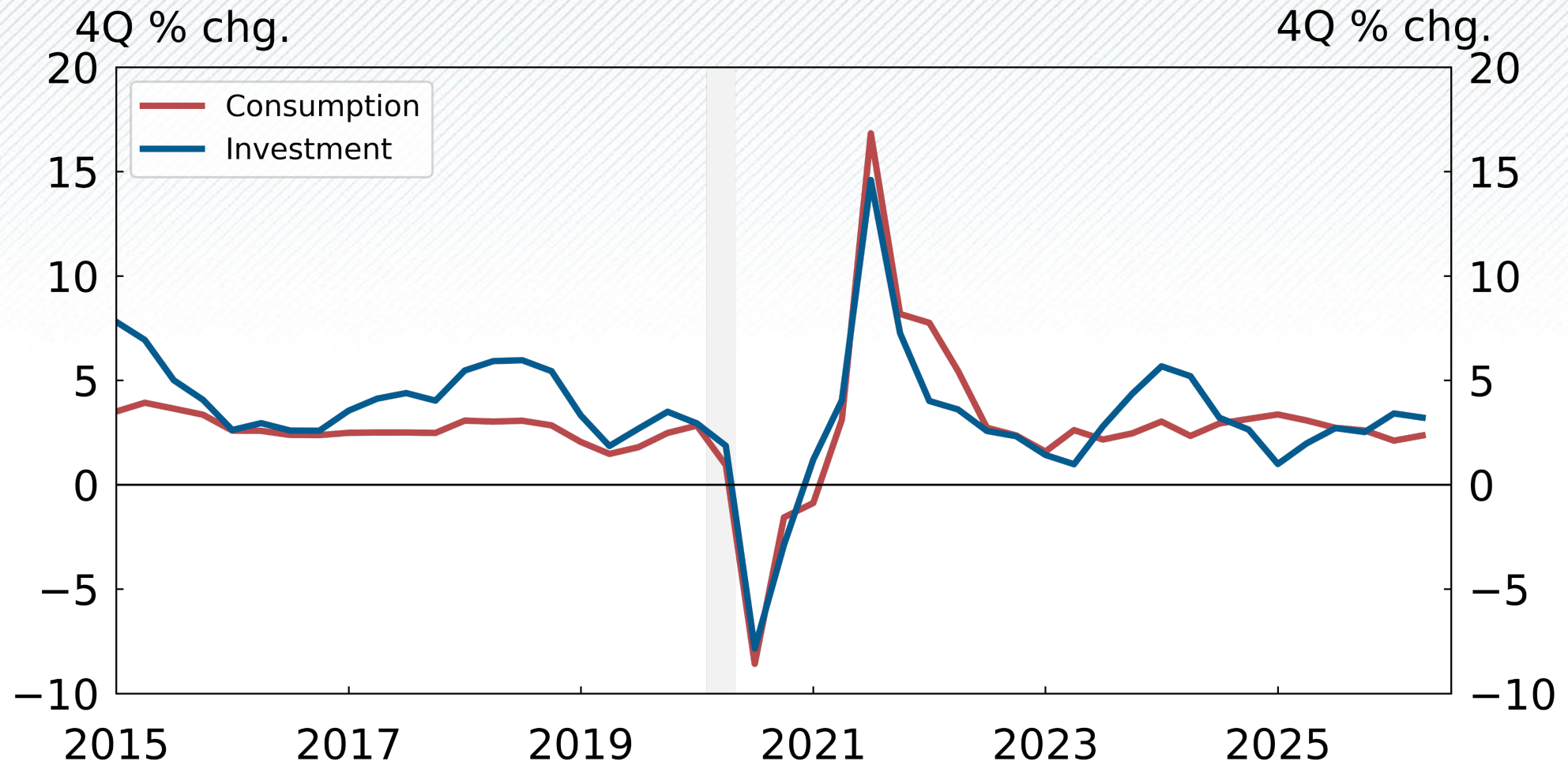
2017 \$, bils.



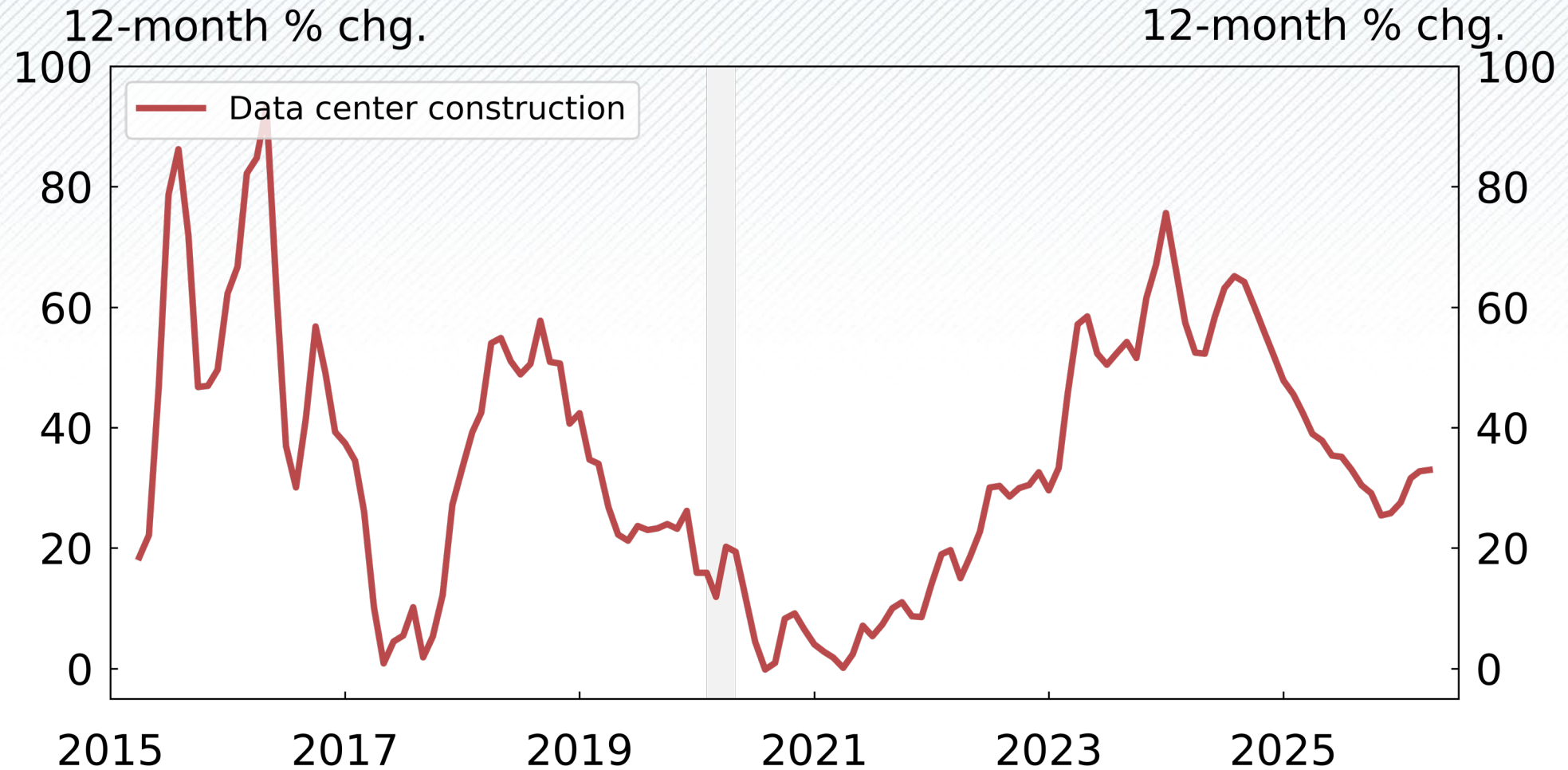
U.S. Economic Conditions: Underneath The Waves



Consumption and Investment Remain Robust



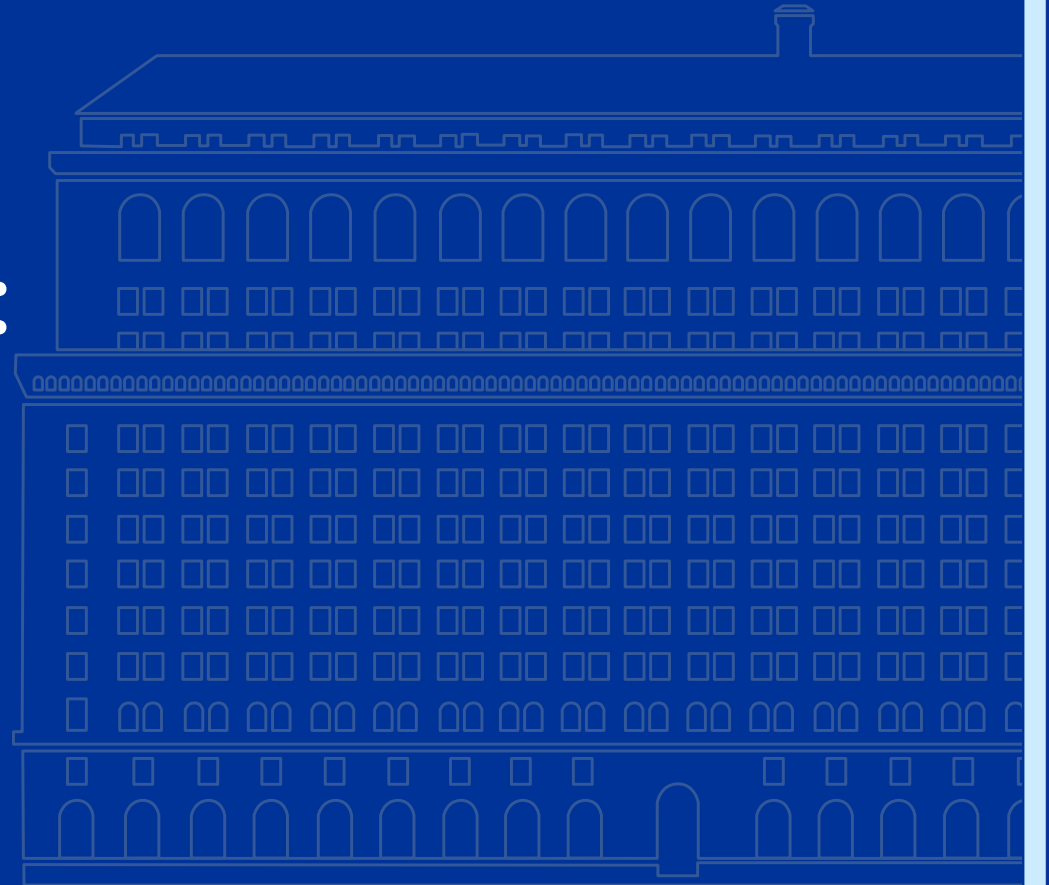
Data Center Construction Is Cooling (But Still Growing)



Source: Bureau of Economic Analysis via Haver Analytics.

Note: 12-month % change of 3-month moving average.

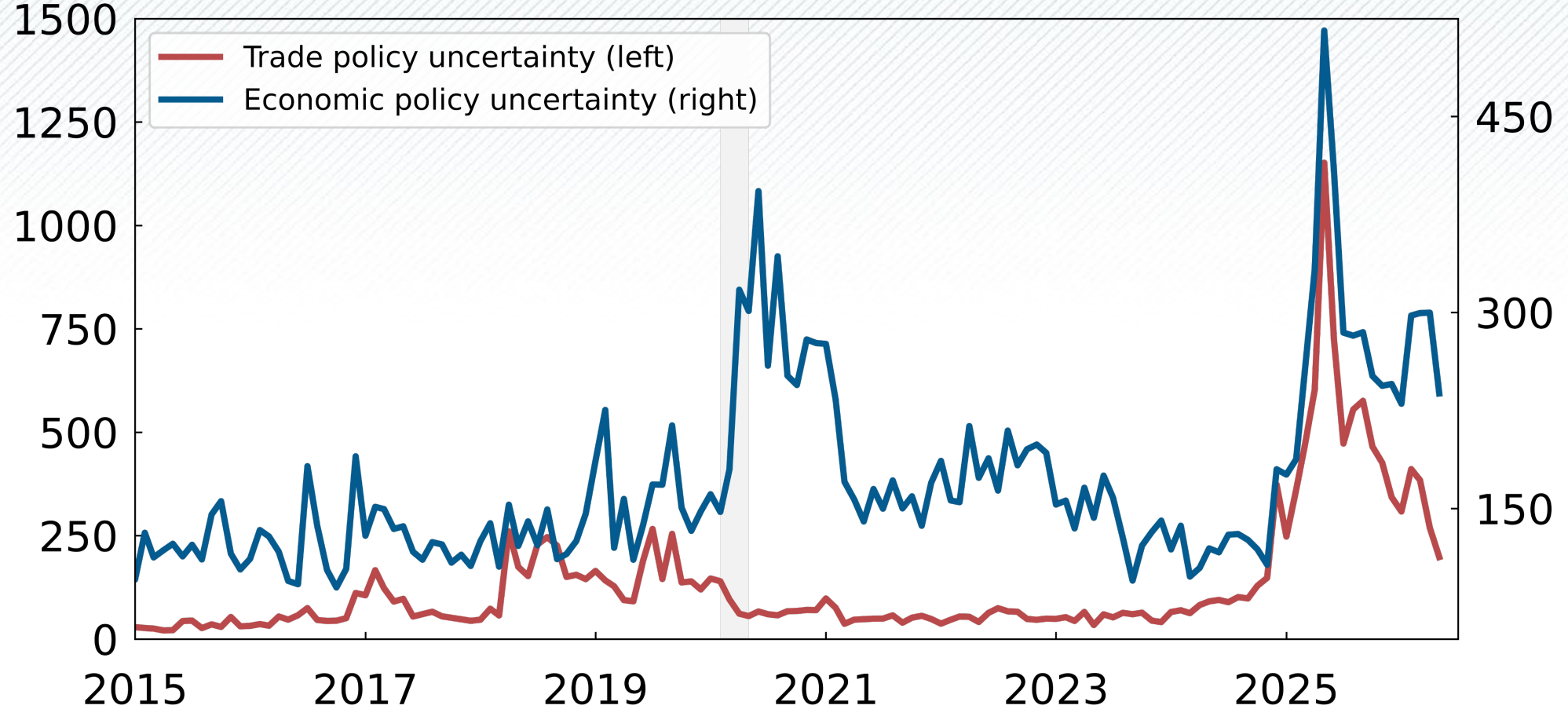
U.S. Economic Conditions: Shifts In The Currents



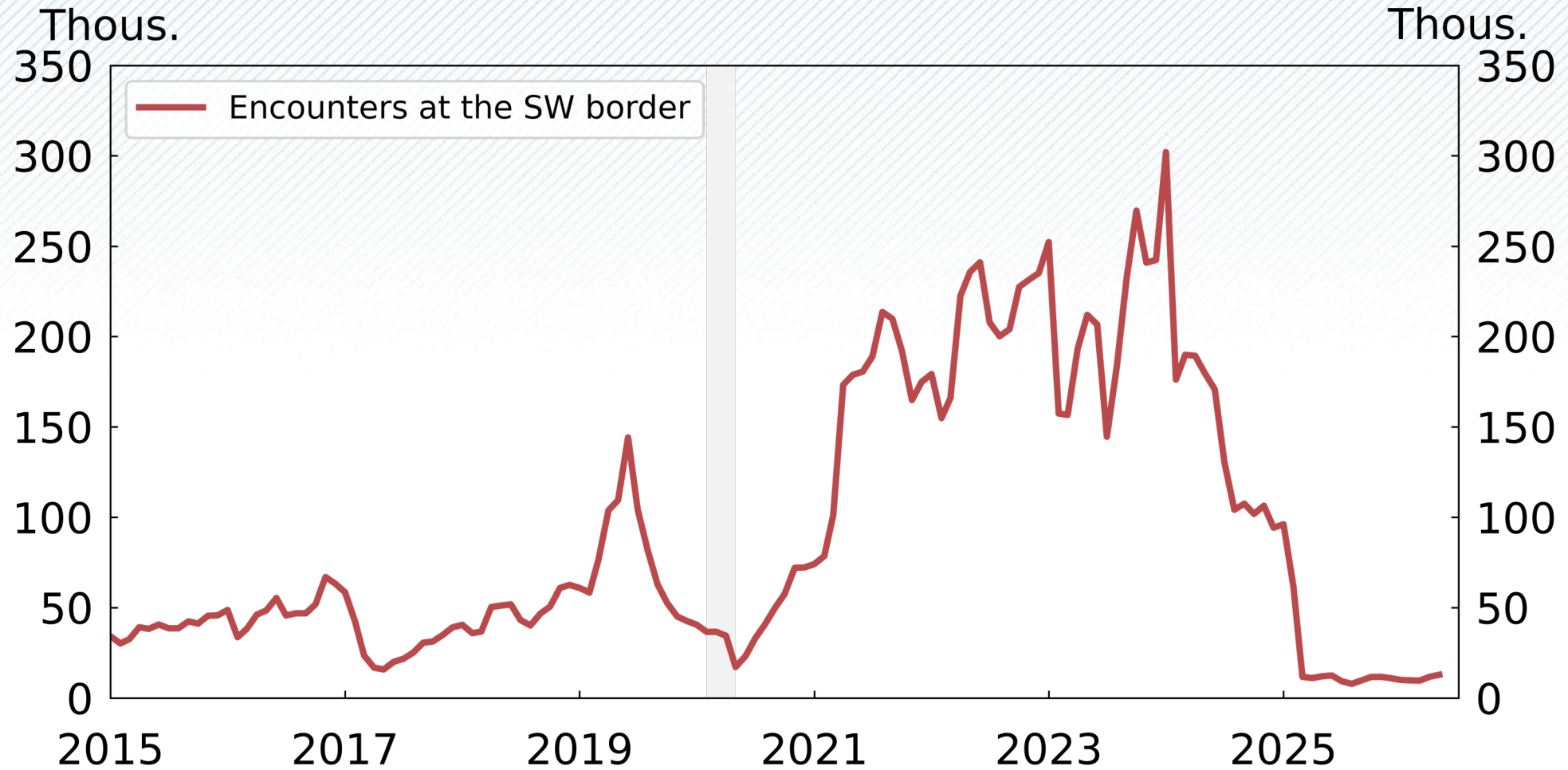
Policy Uncertainty Remains Elevated

1% of news articles=100

2000-01=100

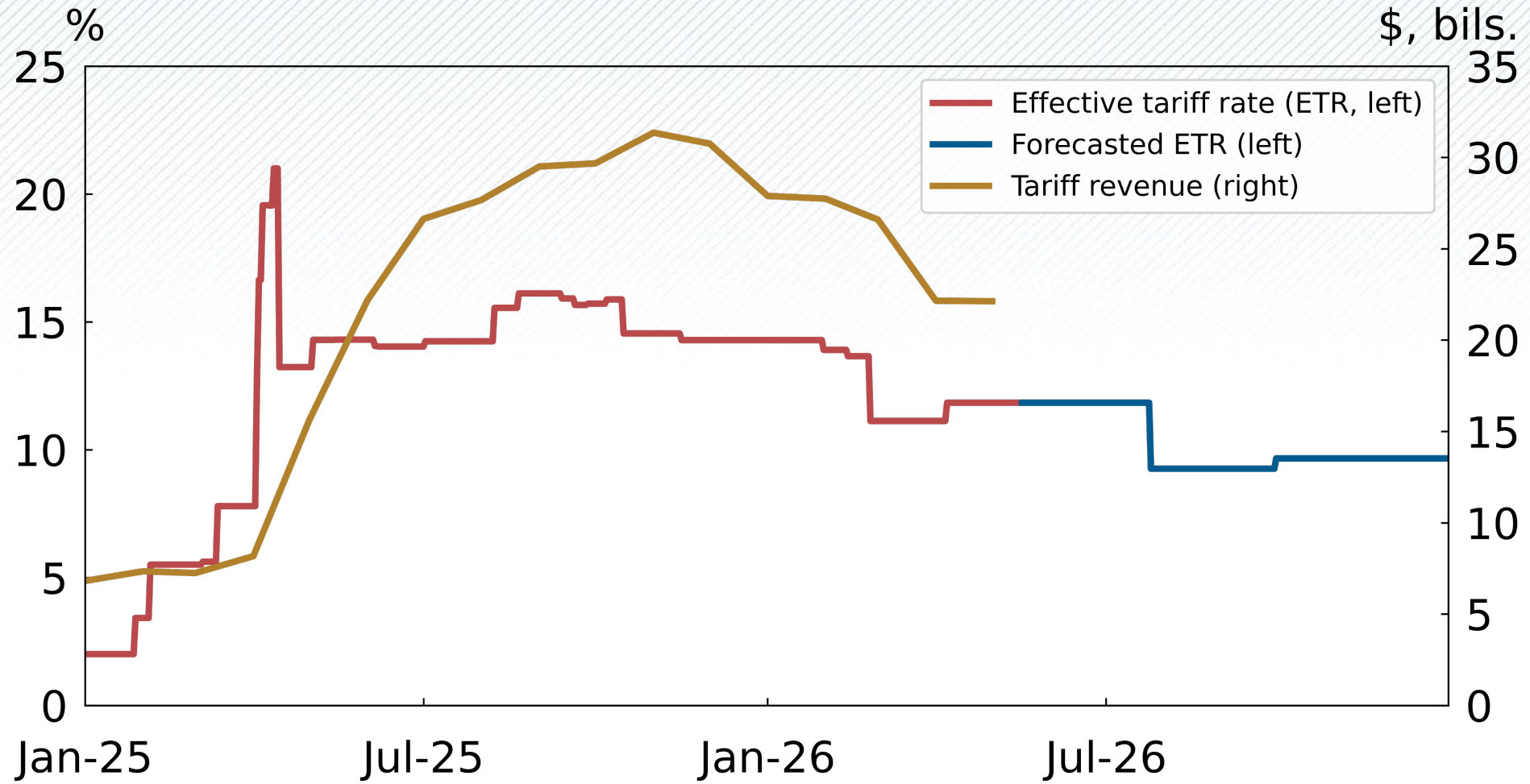


Shift #1: Large Immigration Changes

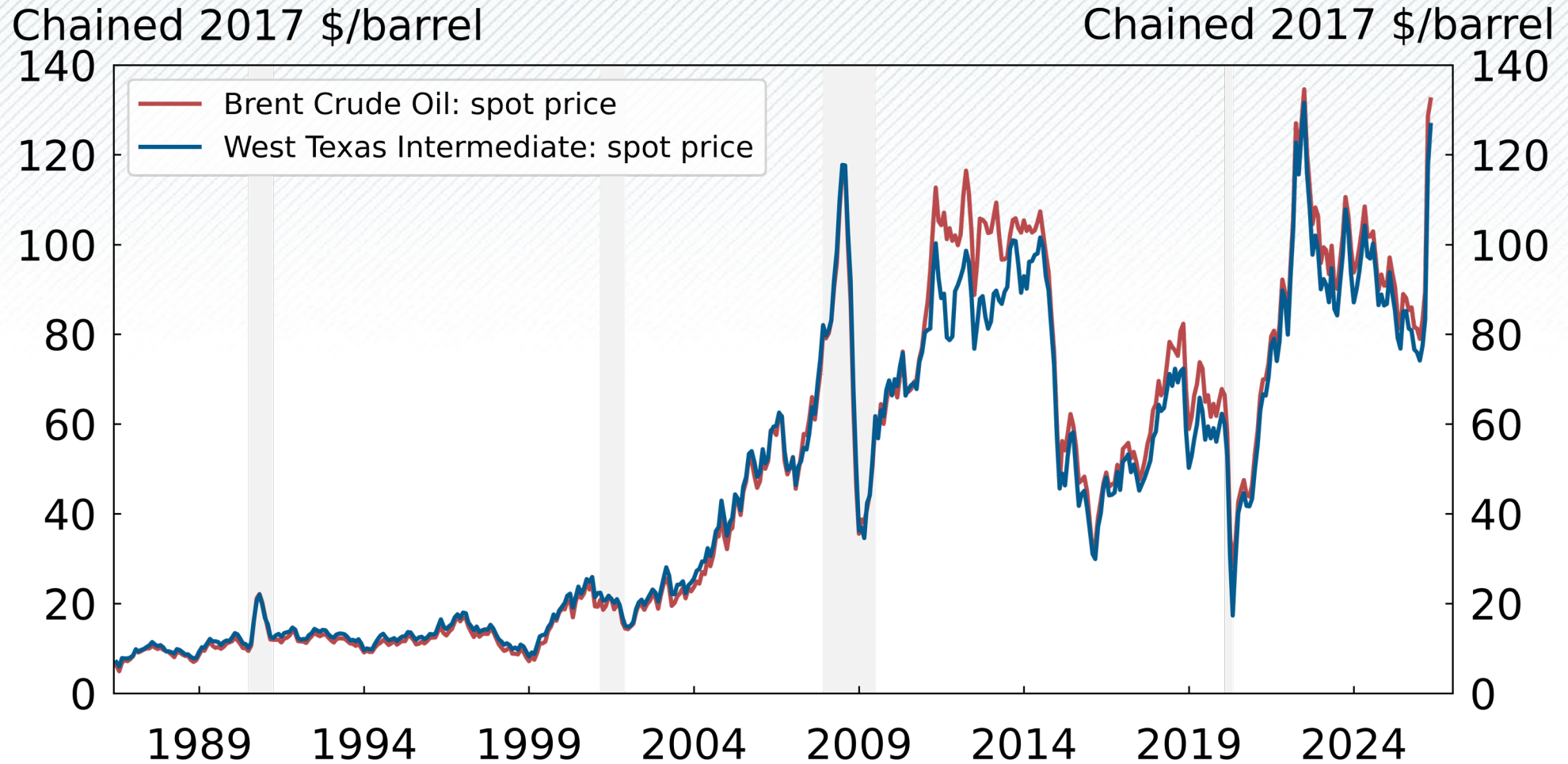


Source: Customs and Border Protection via Haver Analytics.

Shift #2: Effective Tariff Rate and Revenue



Shift #3: Oil Shocks



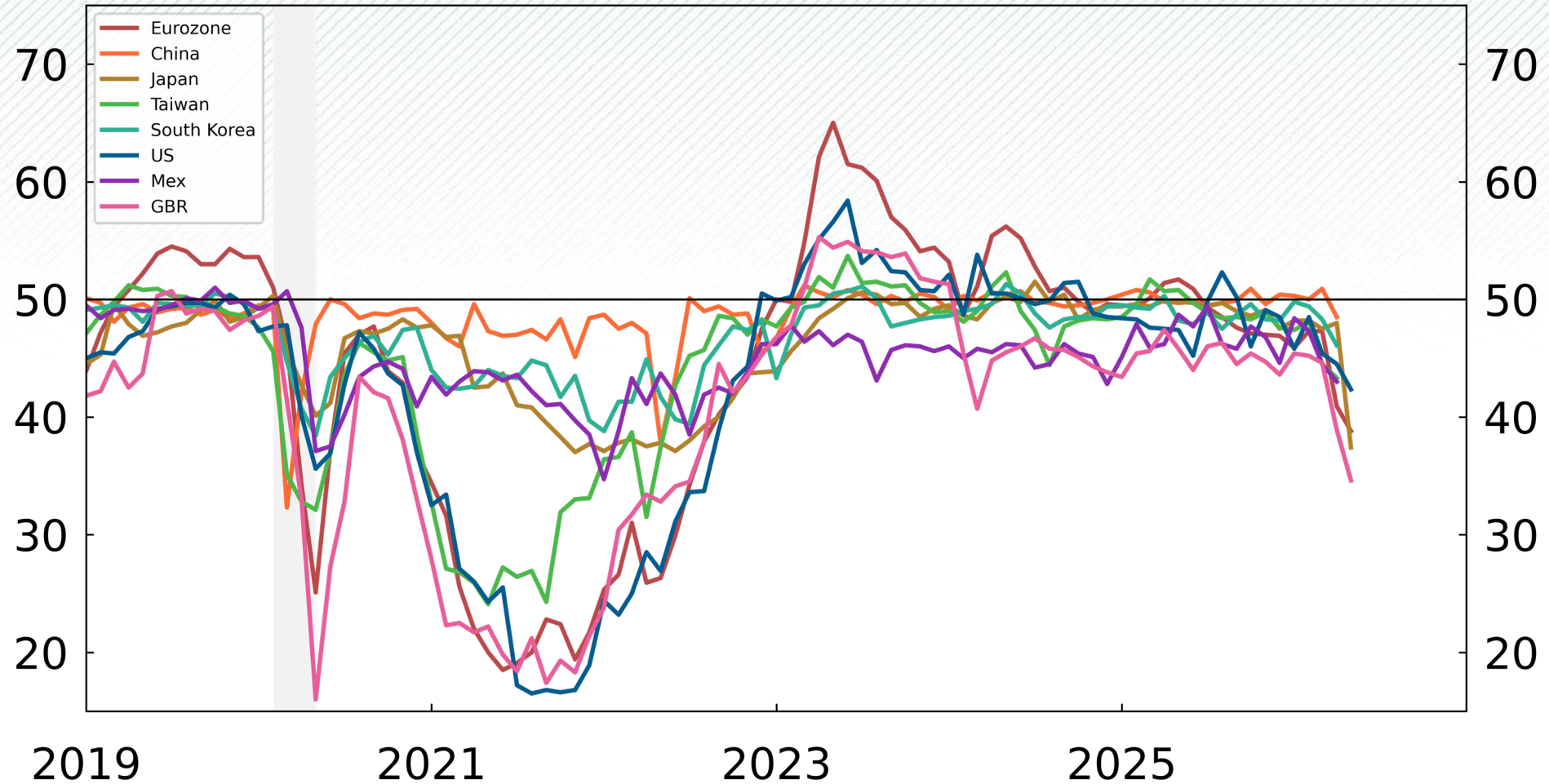
Sources: Energy Information Administration, Chicago Mercantile Exchange, Intercontinental Exchange, and Bureau of Economic Analysis via Haver Analytics.

Note: Spot prices are deflated using the 2017 PCE Chained Price Index (less energy, goods, and services) = 100.

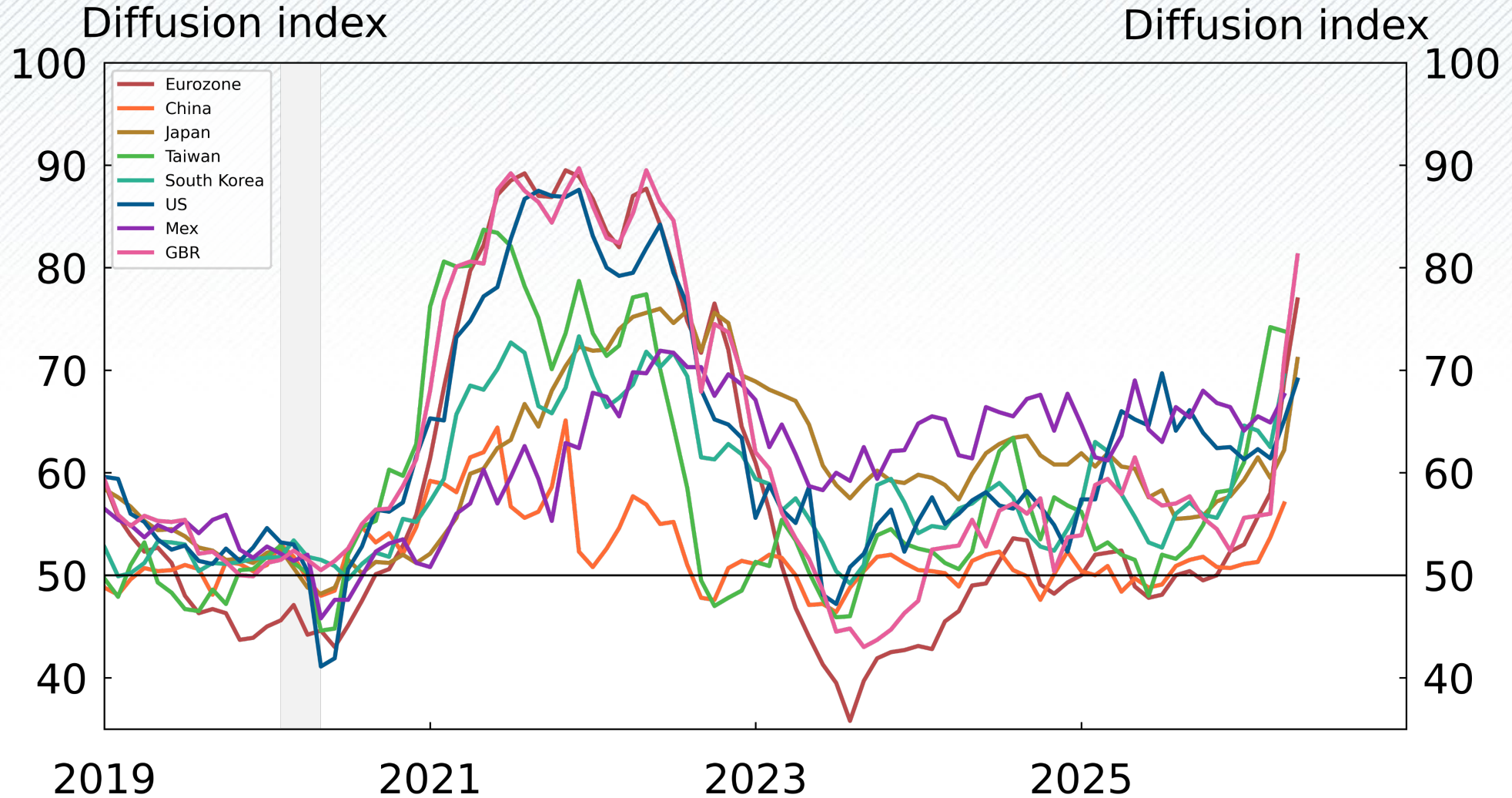
Shift #4a: Oil Shocks Reverberations – Delivery Times

Diffusion index

Diffusion index



Shift #4b: Oil Shocks Reverberations – Input Prices



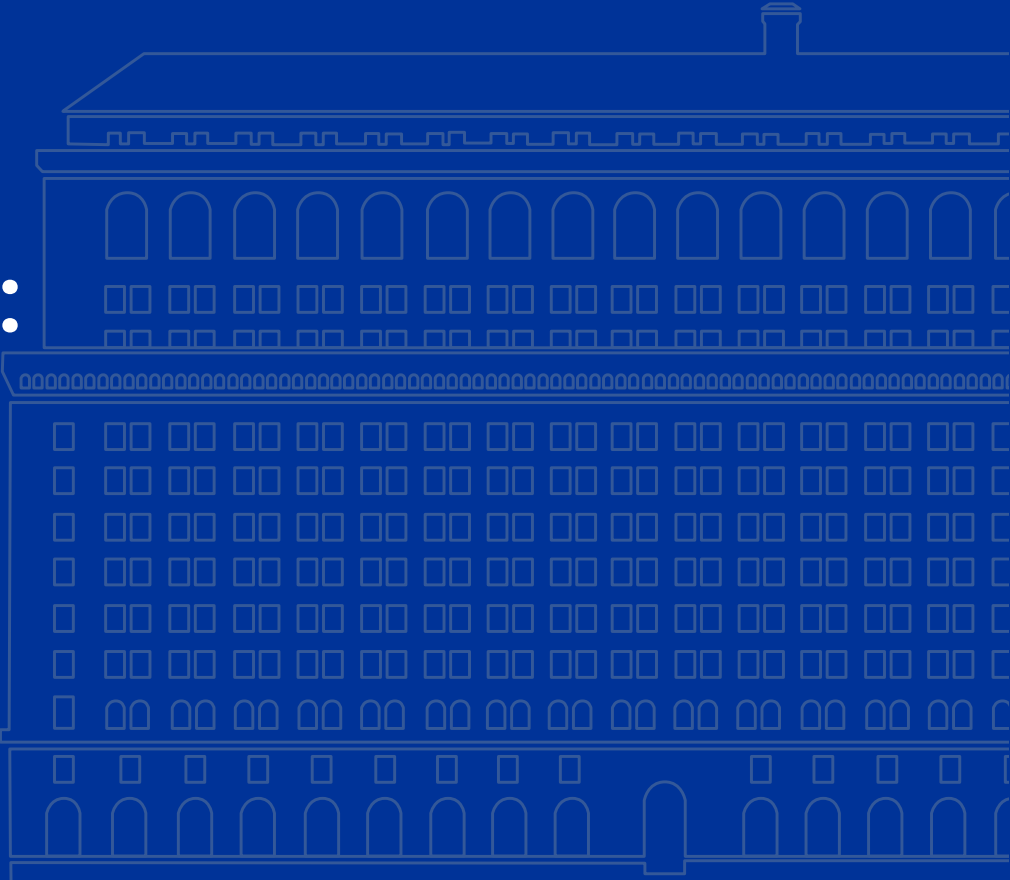
Source: S&P Global via CEIC.

Note: >50 represents an increase in the share of respondents reporting higher input prices.

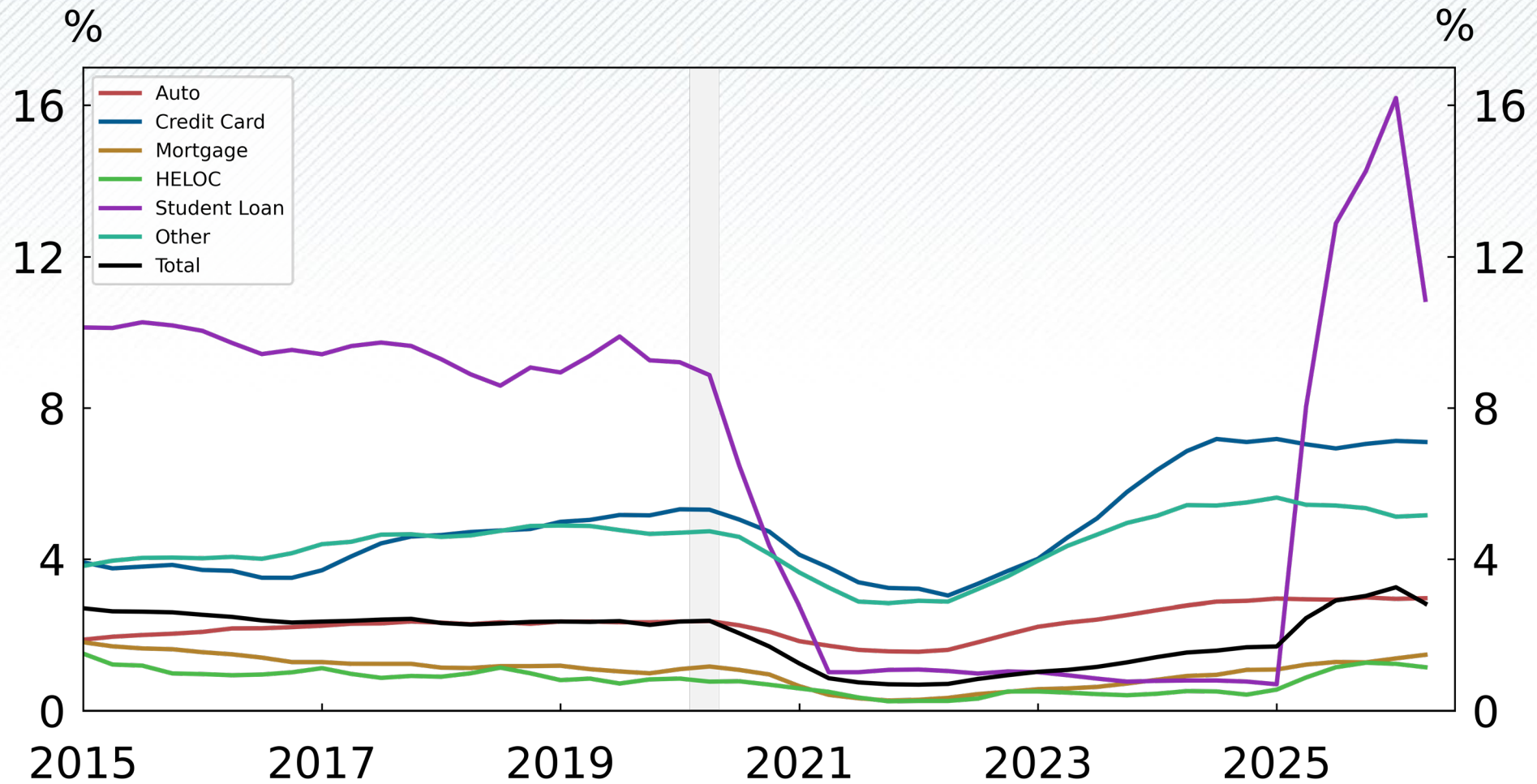
Policy Shifts Heavily *Distributional*

- What does this mean for the macroeconomic outlook?
- The “good news” on policy changes and GDP:
 - Historically, fiscal policy changes are hard to see at the macro level.
 - Supply-side of U.S. is broadly very resilient, and not too sensitive to policy.

U.S. Economic Conditions: Households' Response



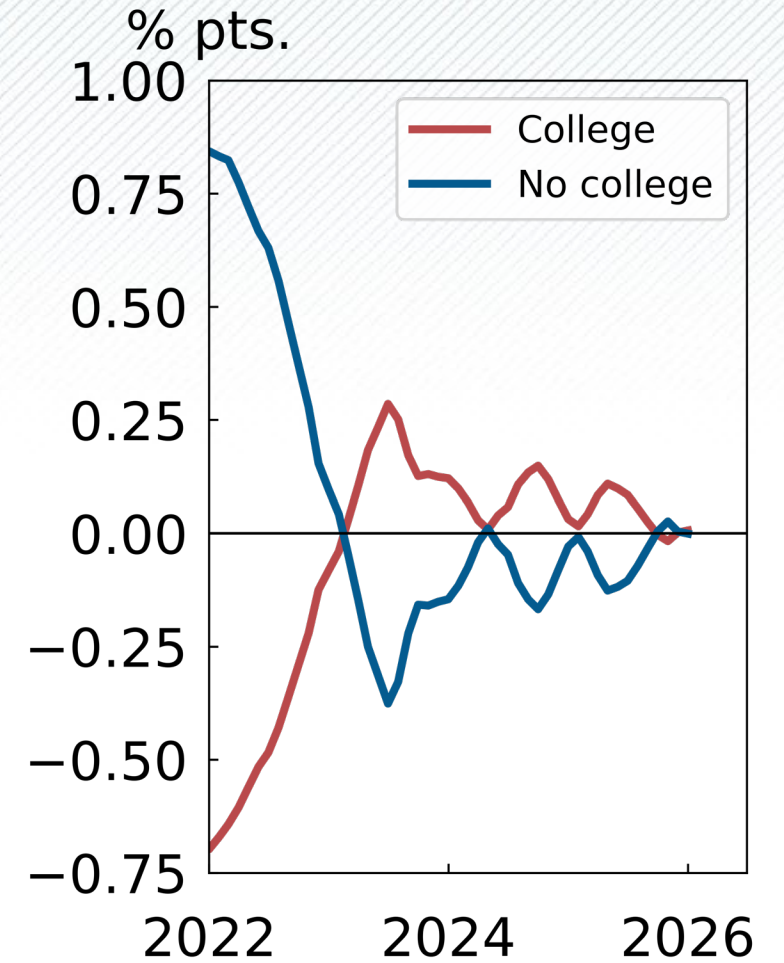
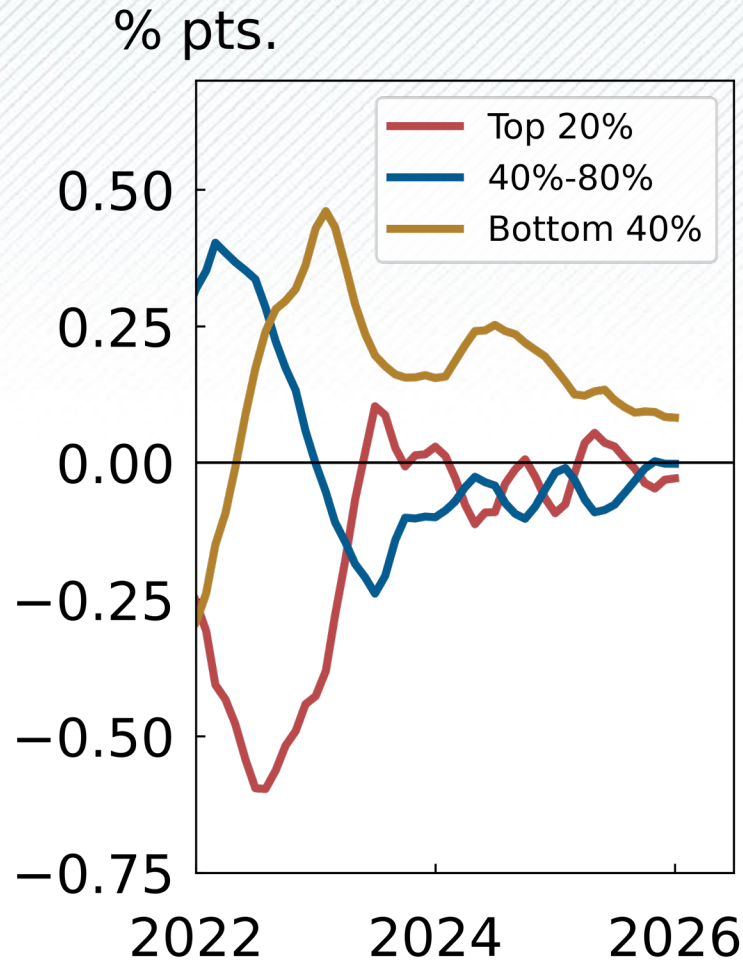
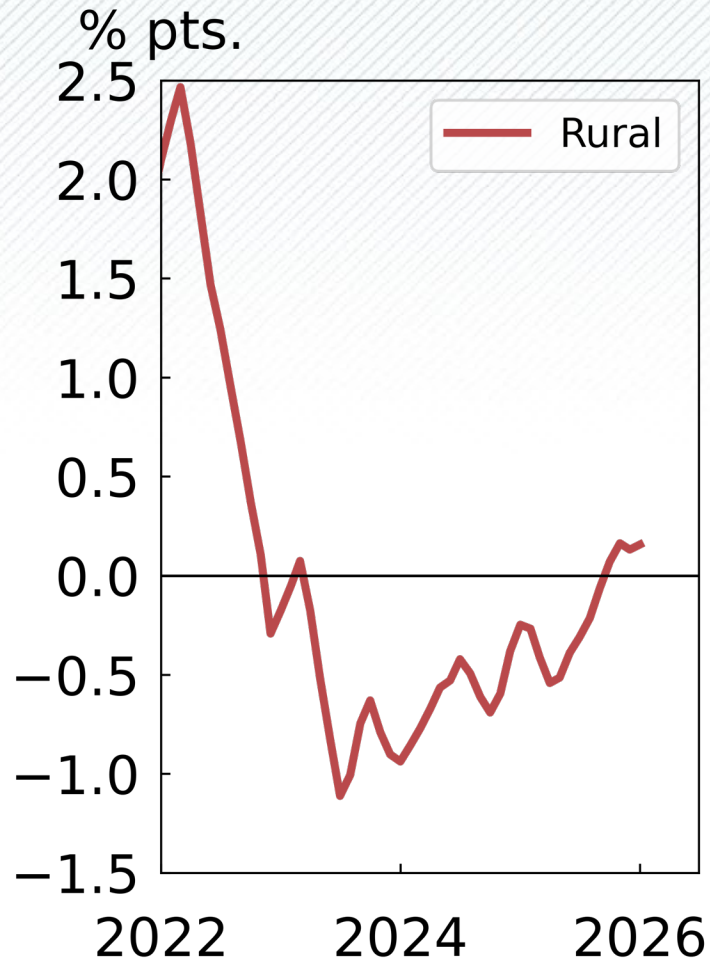
Consumers Feel the Cooling



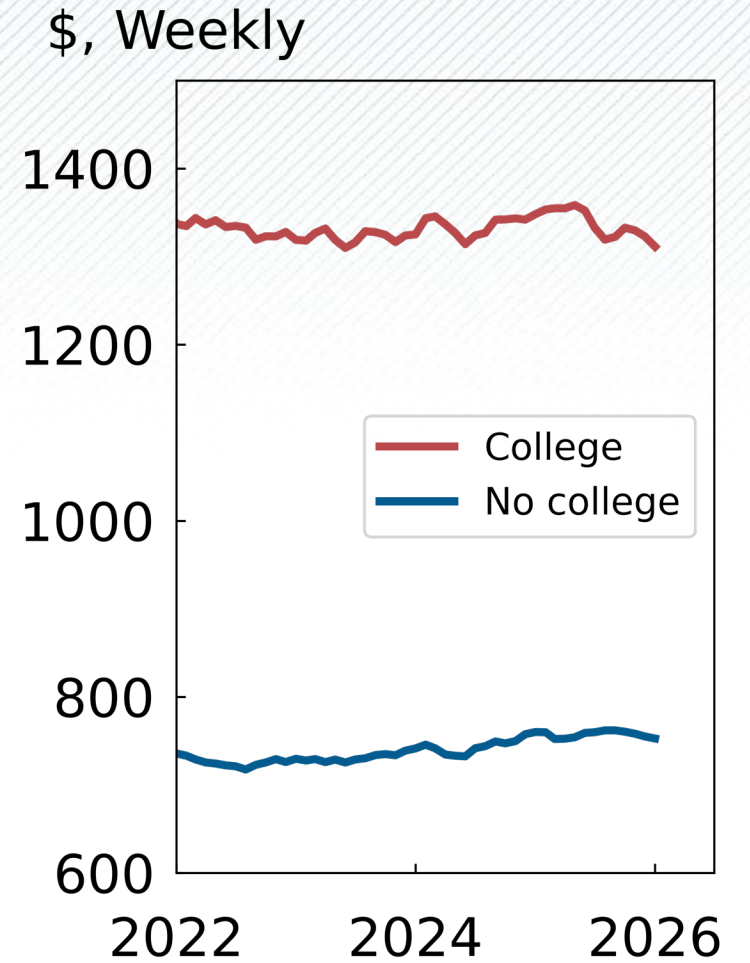
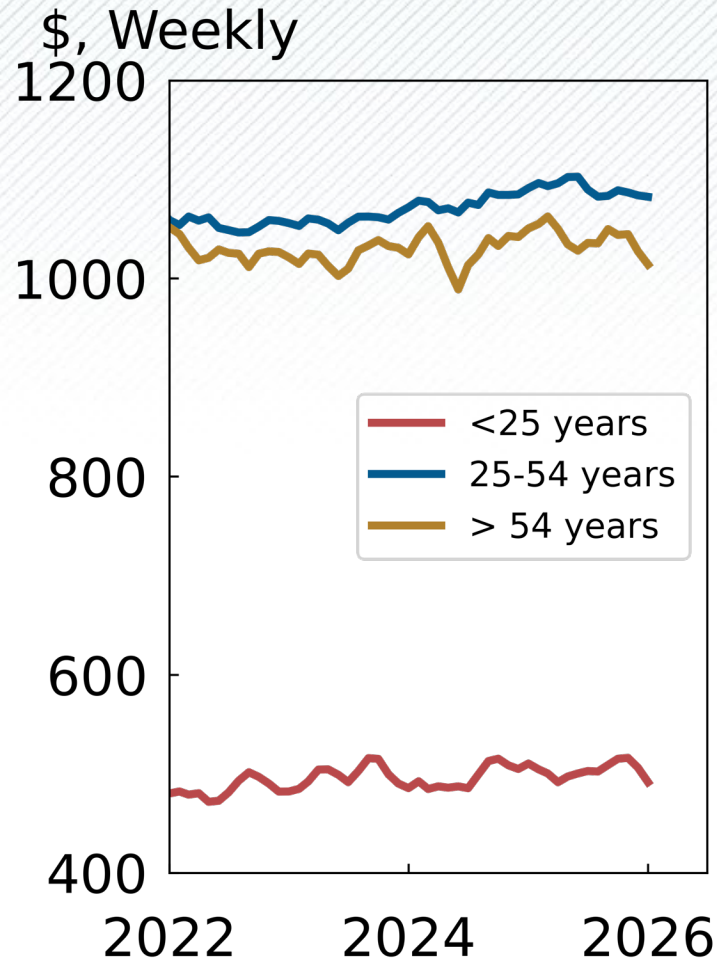
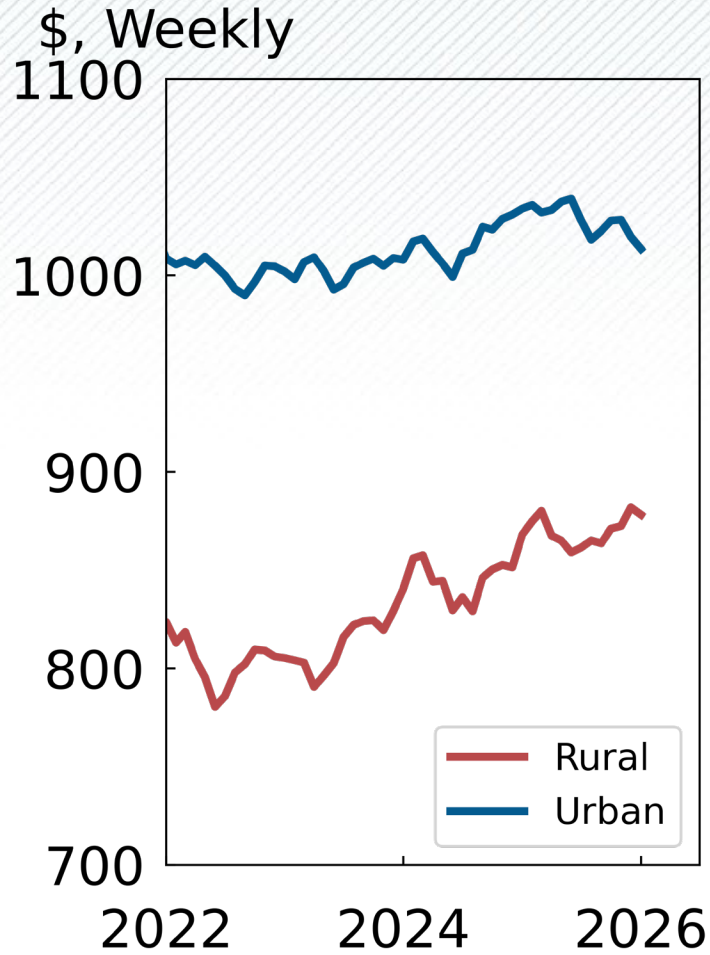
Source: New York Fed Household Debt and Credit Report (Q4).

Note: Transition into serious delinquency (90+ days) by loan type, 4-quarter moving averages.

Inflation by Urban Status, Income, and Education



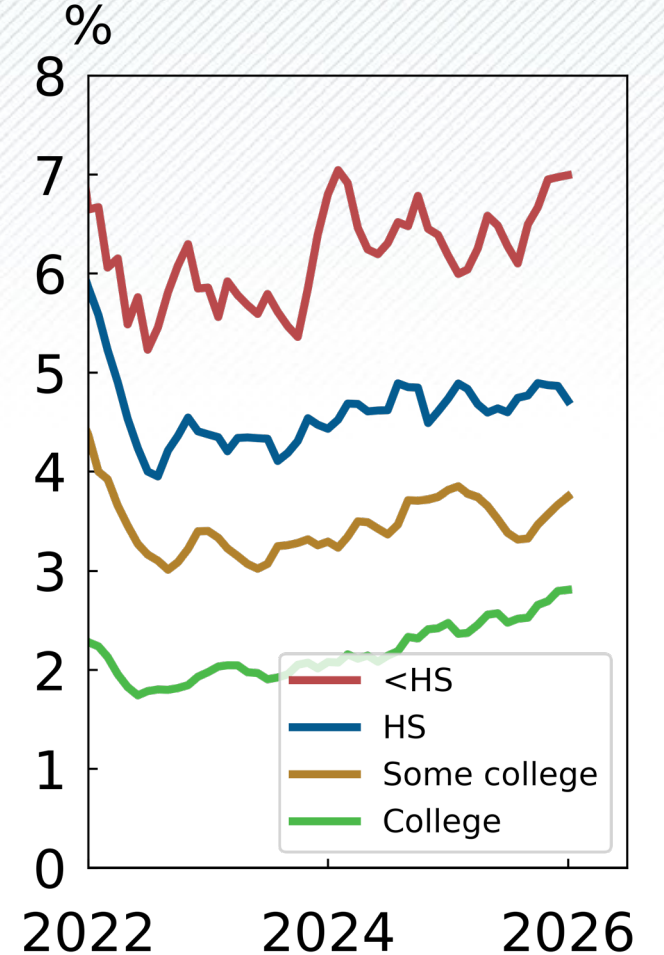
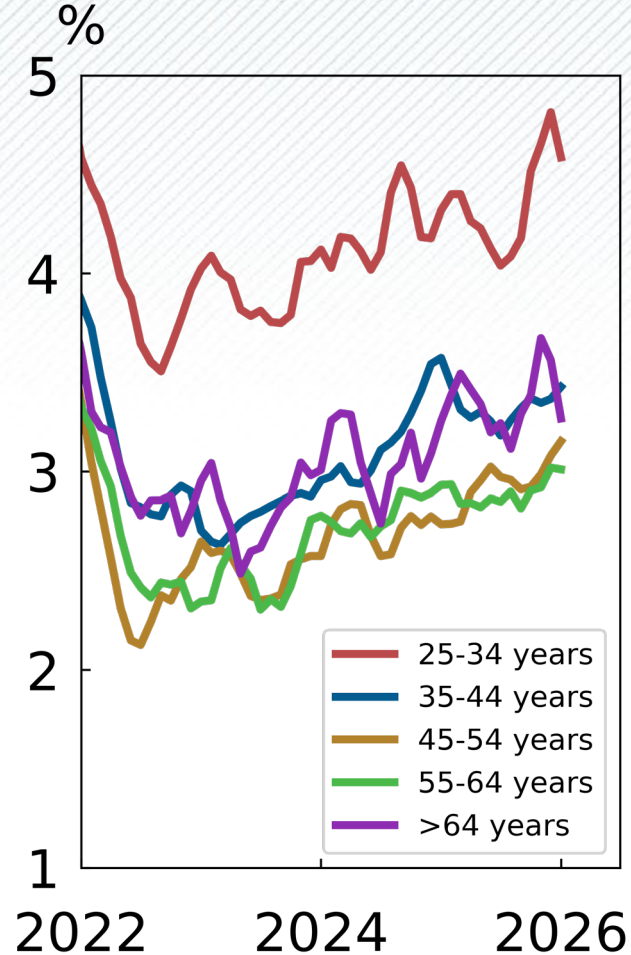
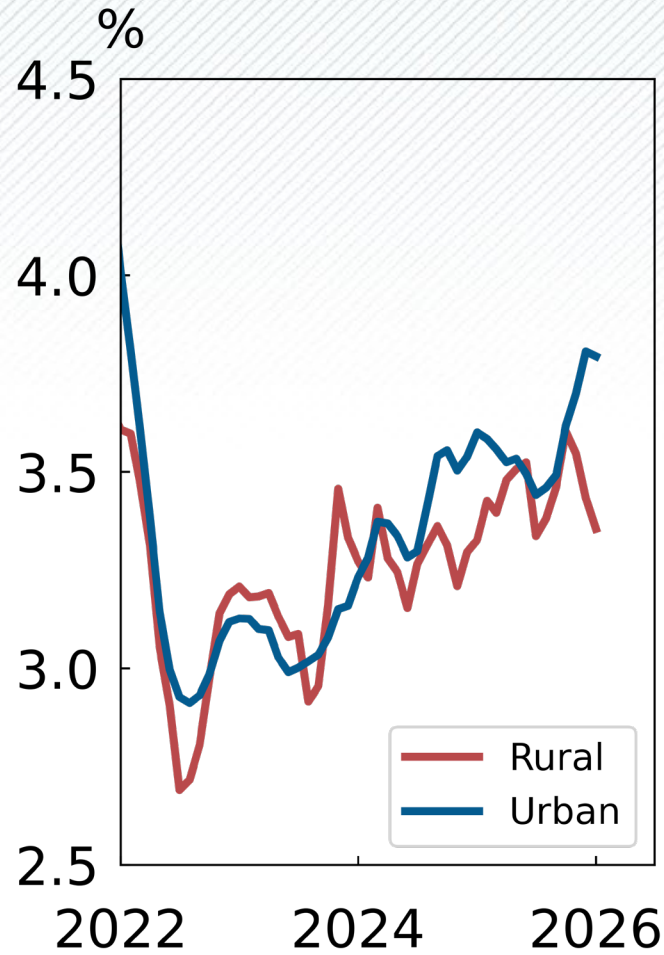
Real Earnings by Urban Status, Age, and Education



Source: New York Fed Economic Heterogeneity Indicators.

Note: Earnings gaps are relative to overall (urban) earnings.

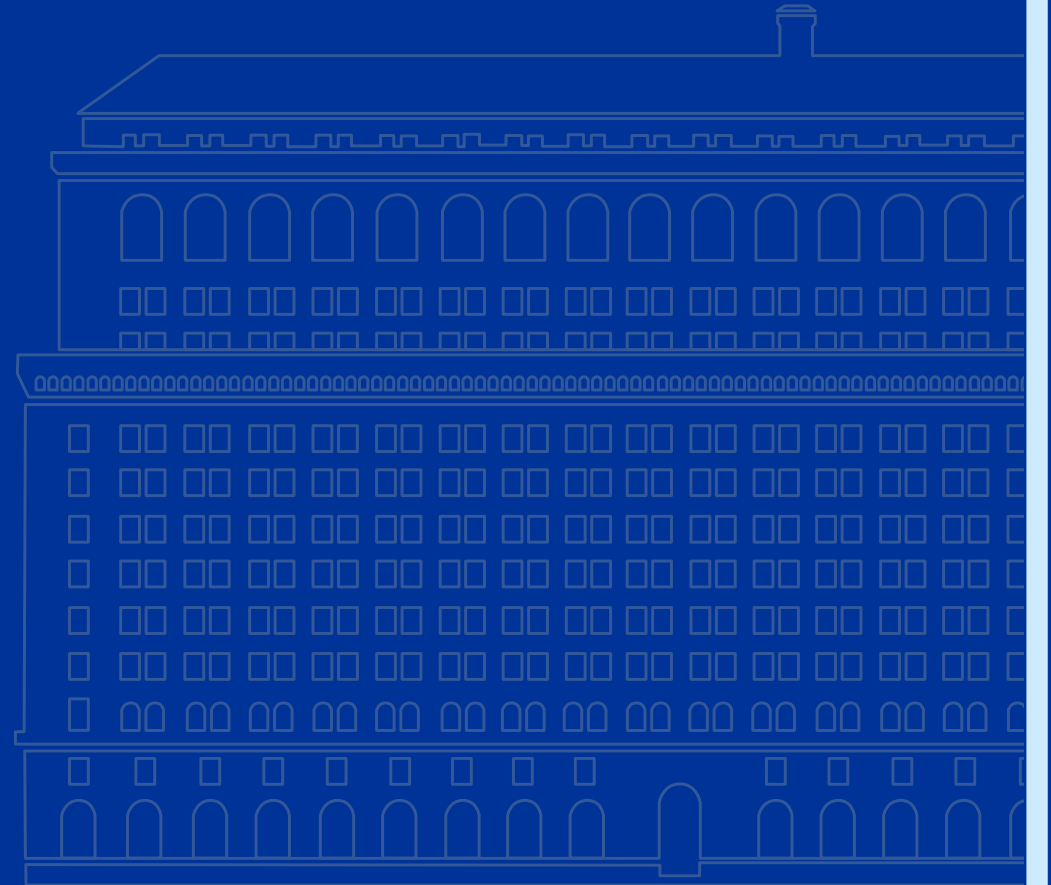
Unemployment Rate by Urban Status, Age, and Education



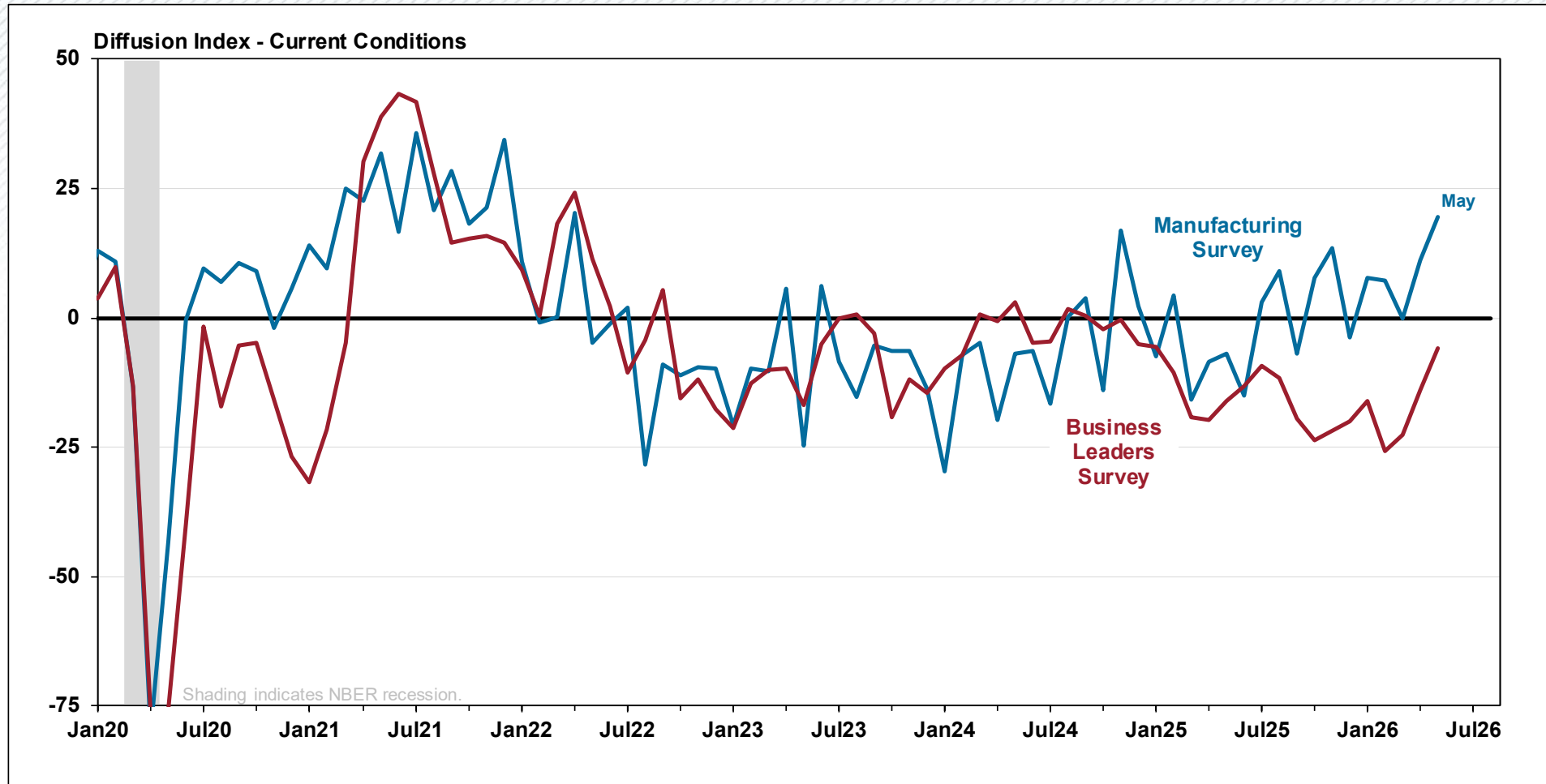
Source: New York Fed Economic Heterogeneity Indicators.

Note: Unemployment rate gaps are relative to overall (urban) unemployment.

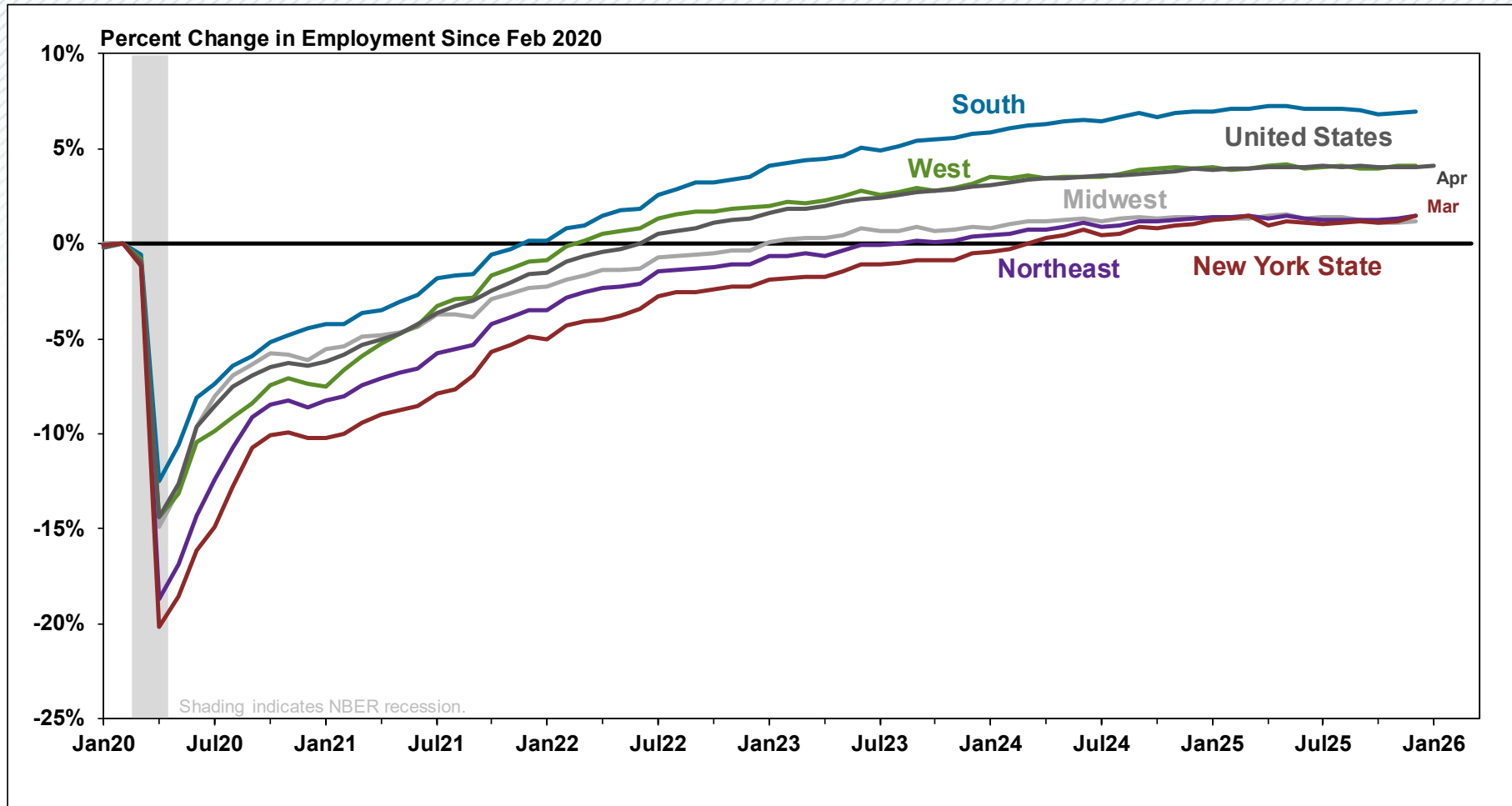
New York State (NYS): Taking a Closer Look



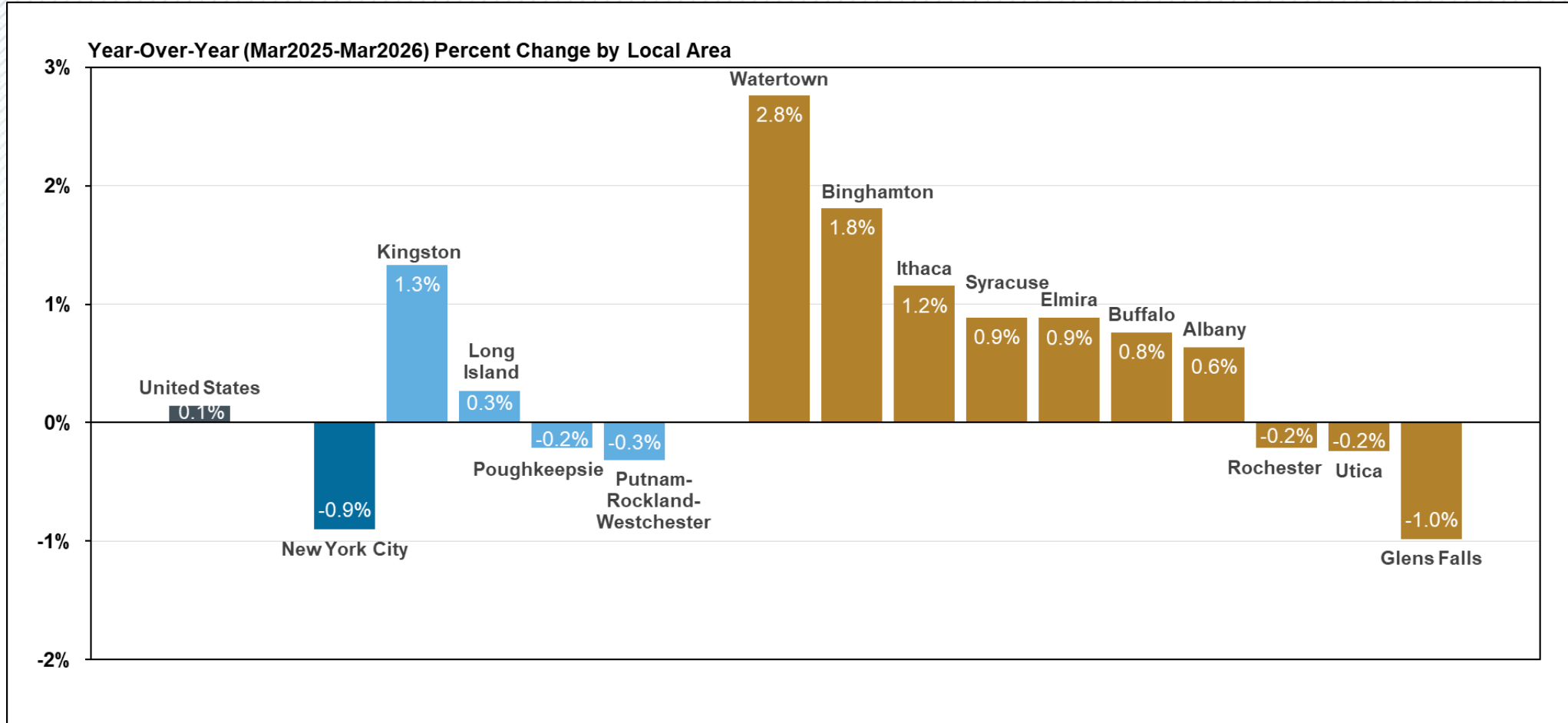
Manufacturing Growing, Service Sector Declining Less Severely



Employment Growth Slowing Nationally

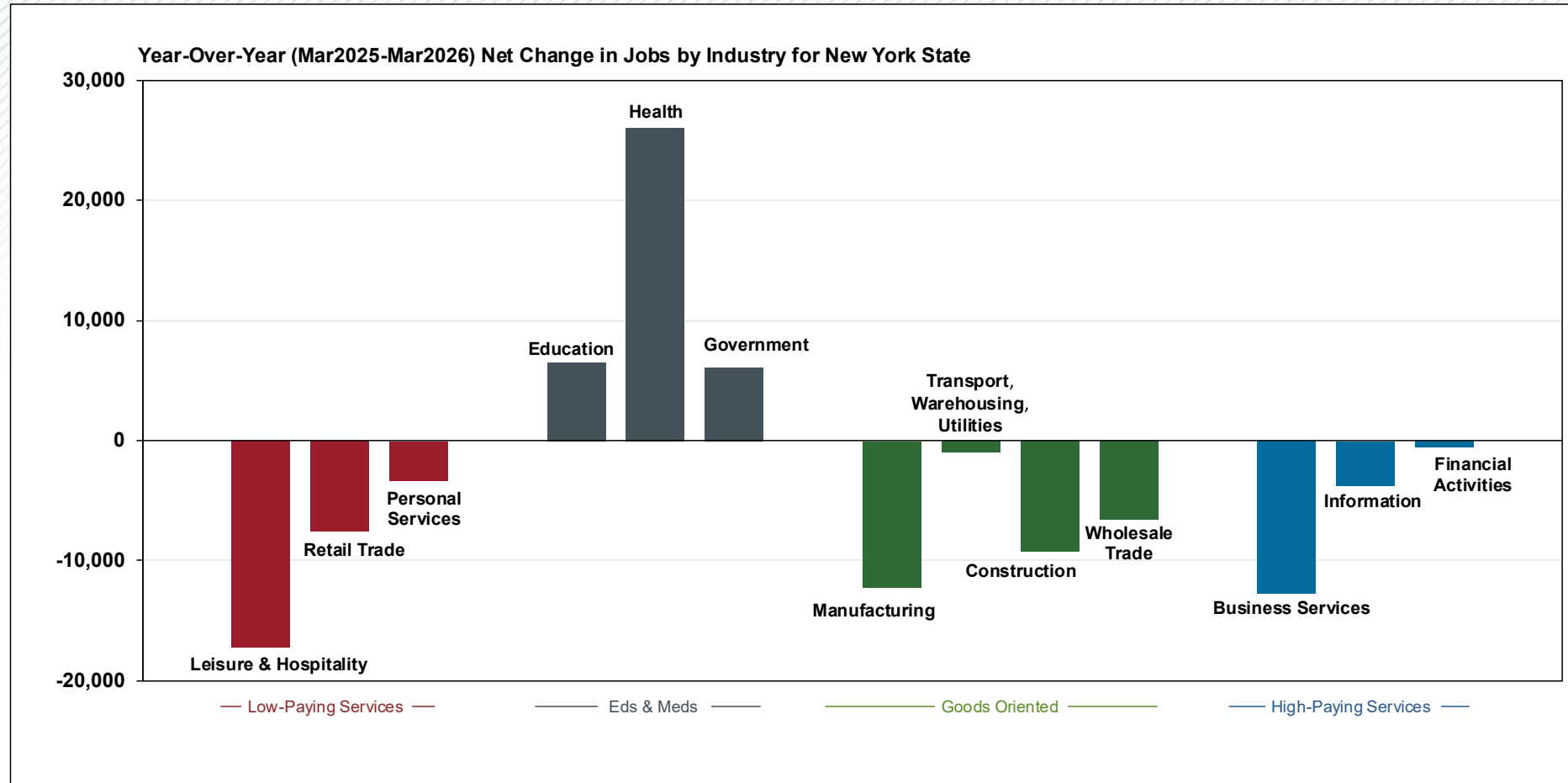


Job Growth Better in Upstate NY Than in Downstate NY

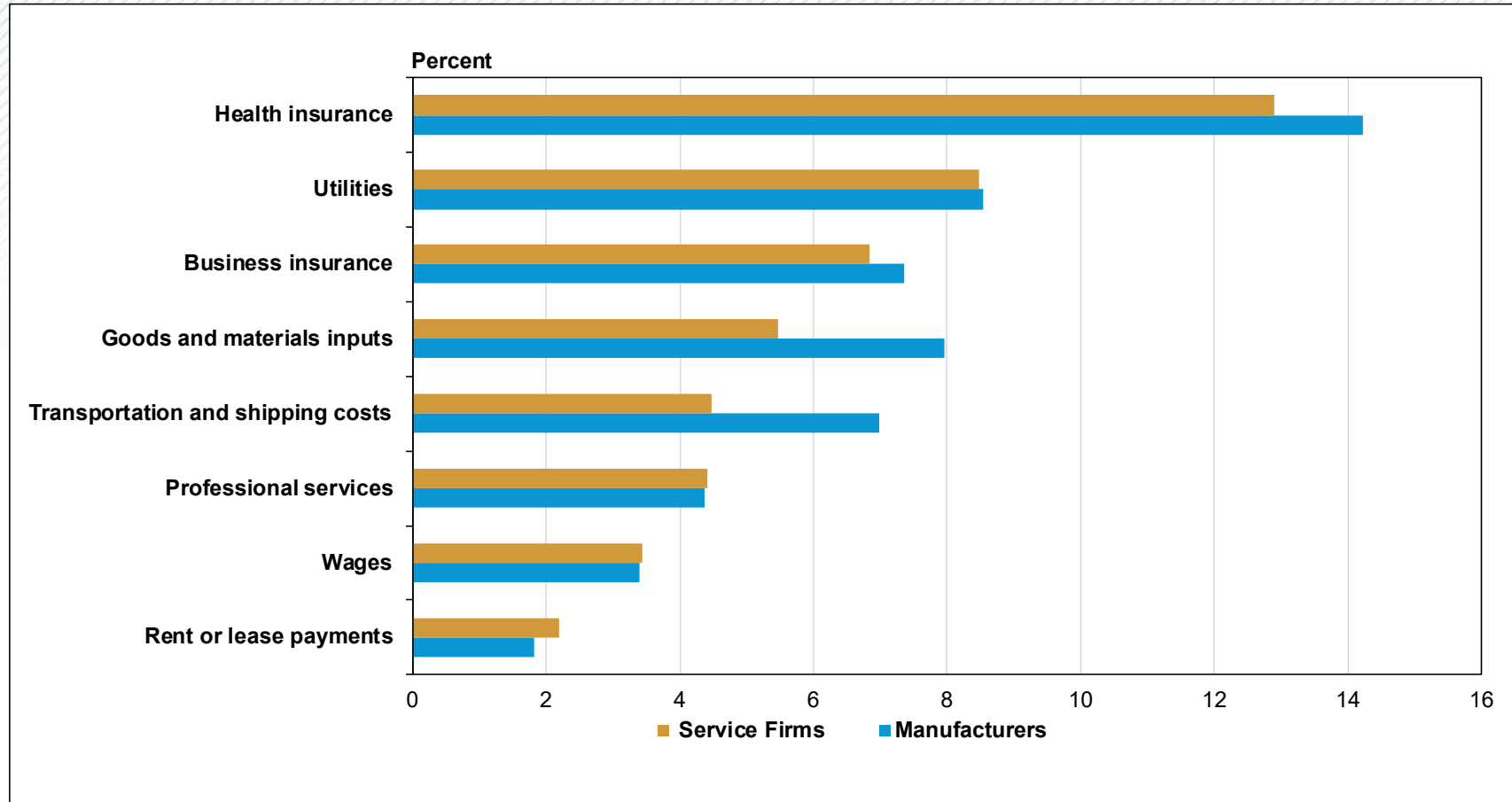


Source: Bureau of Labor Statistics, New York State Department of Labor.

Education, Health, and Government Drive NYS Employment Growth



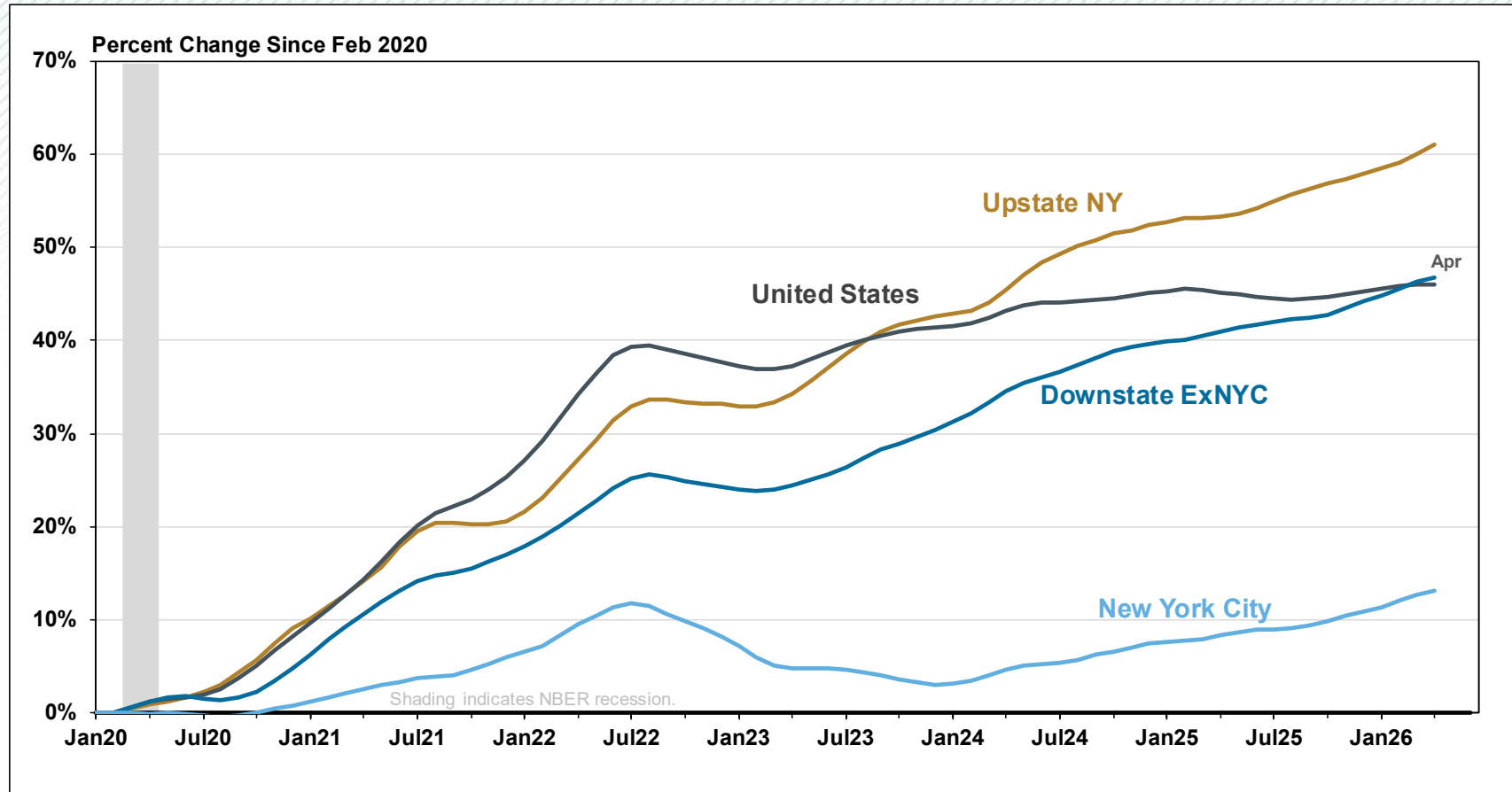
Insurance and Utilities Saw Largest Cost Increases (Past 12 mo.)



Source: New York Fed Regional Business Surveys (February 2026).

Note: These averages represent a trimmed mean (highest 5% and lowest 5% of responses are excluded).

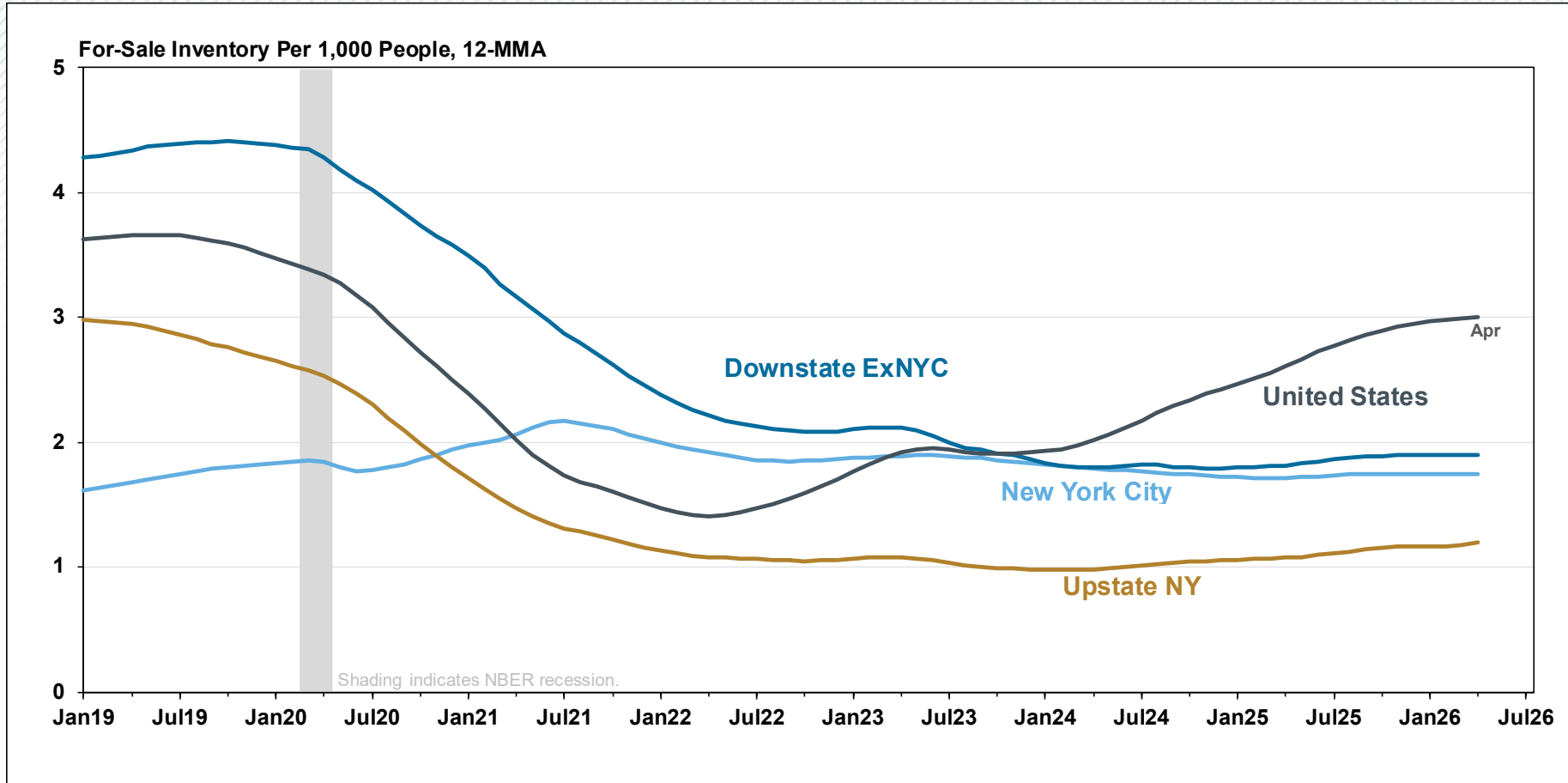
Strong Demand and Low Inventory Drive NYS Housing Prices Up



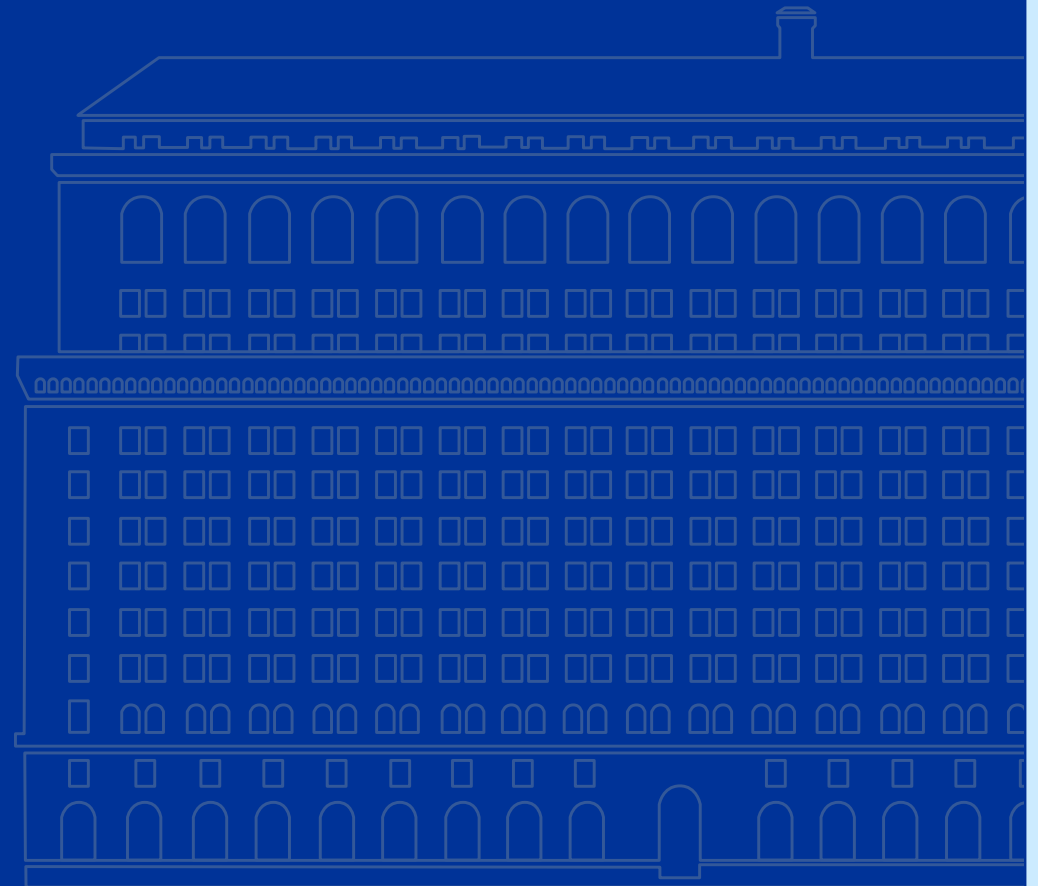
Source: Zillow Home Value Index.

Note: Home price increases are indexed to February 2020.

NYS Housing Inventory Exceptionally Low



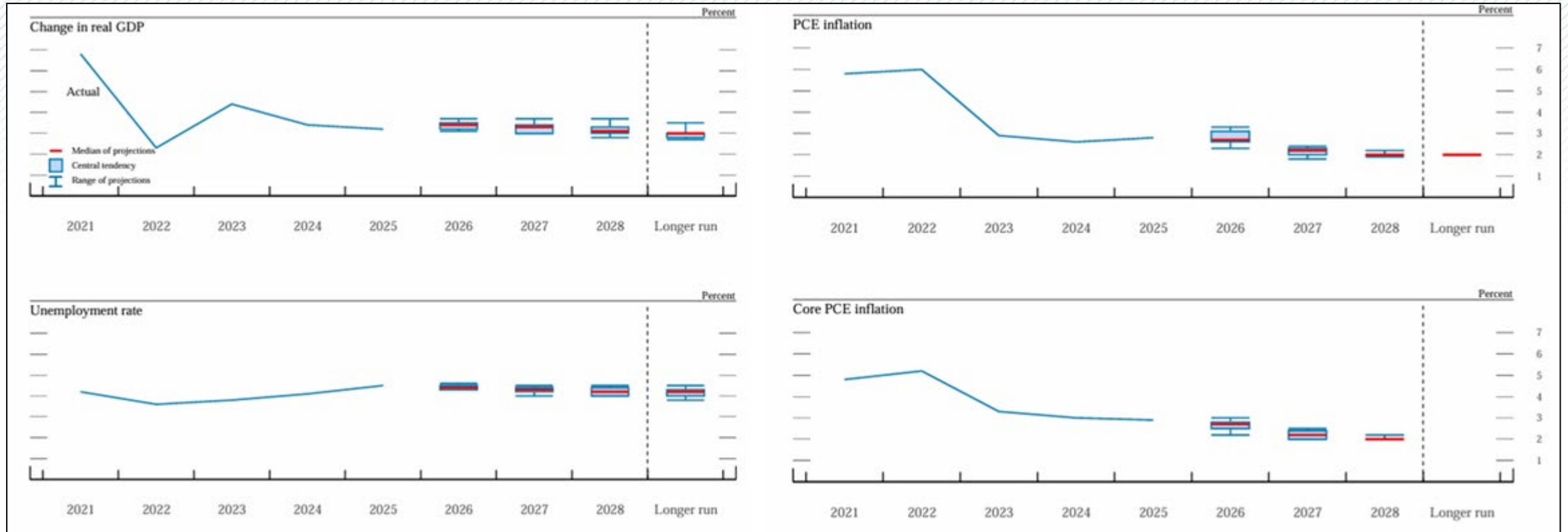
Monetary Policy: Here and Ahead



A Bird's-Eye View of Monetary Policy

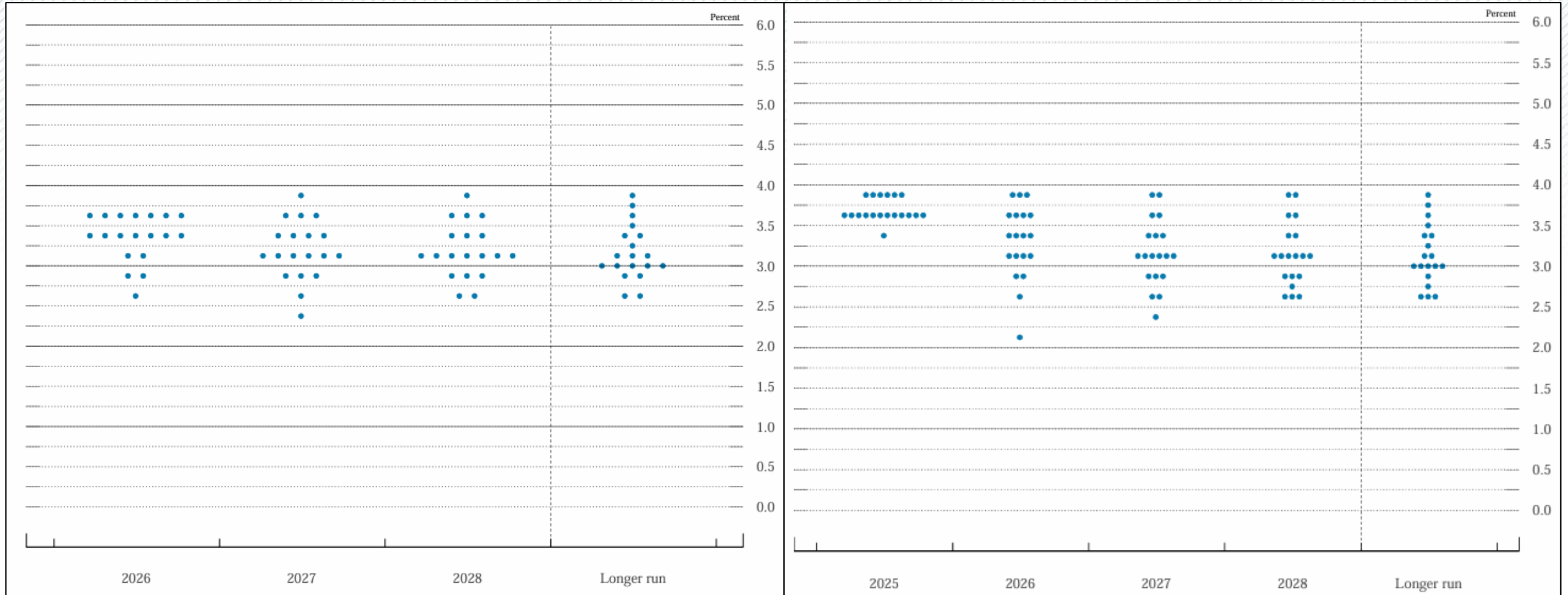
- **Two key observations:**
 - **Monetary policy can have big real effects in the short-run.**
 - Implication: Use monetary policy to help manage shocks hitting the economy, especially to prevent or soften recessions.
 - **Monetary policy can at best control only inflation in the longer run.**
 - Implications:
 - Do not get carried away in the pursuit of the above.
 - Be very careful not to be a source of macro shocks that cause widespread harm at the micro level.
- **Congress's Dual Mandate to Fed: Conduct monetary policy to attain maximum employment and price stability.**

Per Policymakers: A Quiet Disinflation is Still the Baseline



Source: Survey of Economic Projections from the March 2026 Federal Open Market Committee Meeting.

FOMC Policymakers' View on Rates Ahead



Sources: Survey of Economic Projections from the March 2026 (left) and December 2025 (right) Federal Open Market Committee Meeting.

“Supply” Shocks and Monetary Policy

- **Shocks like oil price spikes affect both real activity and inflation, typically in opposite directions.**
- **Central banks must weigh the tradeoffs between their inflation and employment goals.**
- **The FOMC has conveyed a need to watch and wait.**

April FOMC Statement

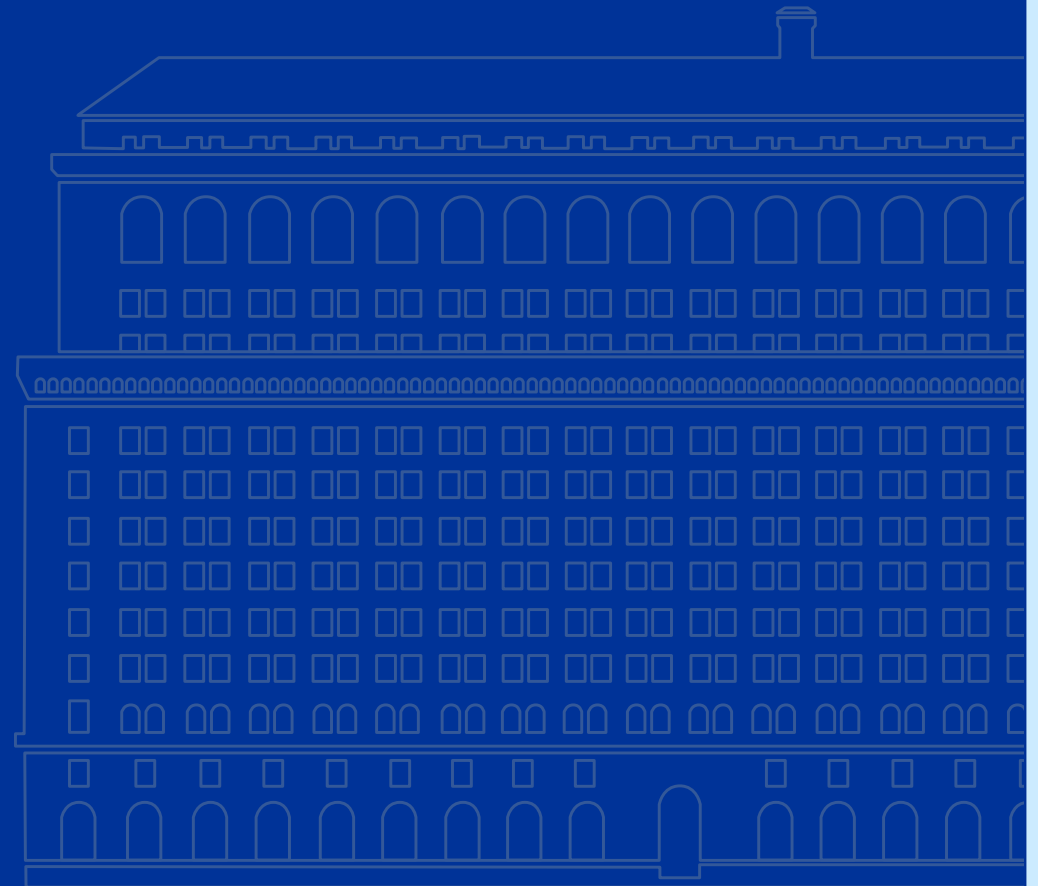
- **Fundamentals:**

- “Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained low, on average, and the unemployment rate has been little changed in recent months. Inflation is elevated, in part reflecting the recent increase in global energy prices.”

- **Uncertainty:**

- “The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Developments in the Middle East are contributing to a high level of uncertainty about the economic outlook. The Committee is attentive to the risks to both sides of its dual mandate.”

Three Takeaways



#1: As Usual, Macro Steady

- **The U.S. economy is steady at the macro level, and continued *macro* steadiness is the base case.**
 - A century of data—and SEP—suggest continued per-capita growth to hover around 2% (with headwinds outside AI).
 - Labor market cooling, but not icing: mid-4s unemployment.
 - Inflation closer to 3.3% this year, but SEP expects closer to target in 2028.
- **However...**

#2: As Usual, Macro Masks Micro Turbulence

- **Micro (household and business-level) uncertainty is unusually high.**
 - Labor market cooling.
 - Consumer debt repayment is showing stress.
 - Path ahead for conditions less optimistic.

#3: As Unusual, This is a Time of Policy and Meta-Policy Uncertainty

- **Policy change has been large:**
 - Oil shocks, trade, and immigration, above all.
 - Meta-policy change maybe even larger—currently unclear.
- **Meta-policy change can bring risk and upside:**
 - “Policy changes” and AI “tech disruption” ask us to gauge how and when policies will flex as circumstances change.

Relevant New York Fed Content

- **Trade**
 - [A Country-Specific View of Tariffs](#)
 - [Do Import Tariffs Protect U.S. Firms?](#)
 - [Does Trade Uncertainty Affect Bank Lending?](#)
 - [The Global Supply Side of Inflationary Pressures](#)
 - [The Impact of Import Tariffs on U.S. Domestic Prices](#)
 - [Do Import Tariffs Help Reduce Trade Deficits?](#)
- **Monetary Policy**
 - [Why Do Forecasters Disagree about Their Monetary Policy Expectations?](#)
 - [The Federal Reserve and its Monetary Policy Implementation Framework](#)
 - [Firms' Inflation Expectations Have Picked Up](#)
- **AI**
 - [Are Businesses Scaling Back Hiring Due to AI?](#)
- **Household Issues**
 - [Borrower Expectations for the Return of Student Loan Repayment](#)
 - [When the Household Pie Shrinks, Who Gets Their Slice?](#)
- **Banking Matters**
 - [Flood Risk Outside Flood Zones — A Look at Mortgage Lending in Risky Areas](#)
 - [The Adverse Effect of “Mandatory” Flood Insurance on Access to Credit](#)
- **Treasury Market**
 - [Measuring Treasury Market Liquidity](#)



Regional Economy Content