U.S. ECONOMIC RECAP

SECOND QUARTER 2026

CURRENT ECONOMIC CONDITIONS COMMENTARY

The Federal Reserve publishes a report (known as the Beige Book) eight times per year that summarizes current economic conditions throughout the 12 U.S. Federal Reserve Districts. The fifth *2026 Beige Book* publication, which was released on July 15, 2026, highlighted:

- Economic activity continued to expand modestly, with growth reported in nearly all Federal Reserve Districts;
- Consumer spending edged higher but remained mixed, as higher prices, especially for fuel, constrained purchases in other categories. Several Districts reported weaker discretionary spending;
- Business activity strengthened in several sectors, including tourism, manufacturing, transportation, and services;
- Supply chain and trade-related challenges persisted, with manufacturers reporting more supply chain disruptions and transportation firms navigating tariff-related changes and impacts from the conflict in the Middle East;
- Construction and real estate activity increased slightly, driven in part by continued investment in data center development across multiple Districts;
- Financial conditions remained stable overall, with modest growth in commercial and consumer lending;
- Sector performance was uneven, as energy activity increased, agriculture faced worsening conditions and social service organizations adapted to funding declines amid sustained demand for housing, food, and health care.

CONSUMER CONFIDENCE – THE BACKBONE OF THE U.S. ECONOMY

Consumers influence the U.S. economy immensely through their spending and savings decisions. As such, measures of consumer confidence may provide valuable information in discerning the economic outlook.

In the University of Michigan's *March 2026 Survey of Consumer Confidence*, Chief Economist, Joanne Hsu opined:

Consumers continue to express frustration about the persistence of high prices more generally. About 57% of consumers spontaneously mentioned that high prices were eroding their personal finances, unchanged from last month and up from 36% a year ago. Moreover, in the past two months, a sharply rising share of consumers reported that inflation will pose greater risks to consumers in the year ahead than unemployment. At the start of the year, 23% reported that inflation would be the greater challenge, 14% chose unemployment; the remainder said both equally. This month, however, a substantial 38% now chose inflation—the highest since February 2025—while only 6% reported unemployment.

CONSUMER PRICE INDEX (CPI)

The June 2026 Consumer Price Index (CPI) reading fell by 0.4% month-over-month and was down 0.7% year-over-year to 3.5%. The index for energy fell 5.7% in June after rising 3.9% in May, 3.8% in April, and 10.9% in March. The energy index was the largest contributor to the monthly all items de-crease, more than offsetting increases in other indexes including those for shelter and food. The food index increased 0.2% over the month, as did the index for food at home and the index for food away from home. The index for all items less food and energy was unchanged in June. Indexes for motor vehicle insurance, communication, apparel, medical care, and used cars and trucks decreased over the month. Conversely, the indexes for recreation, household furnishings and operations, and personal care were among the major indexes that increased in June.

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MONETARY POLICY

Determined by the Federal Reserve's *Federal Open Market Committee (FOMC):*

In the June 2026 Statement, the FOMC noted:

Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little.

The Committee decided to maintain the target range for the federal funds rate at 3½% to 3¾%, in support of the Federal Reserve's dual mandate. The Committee reaffirmed its policy of maintaining ample reserves in the banking system.

Inflation remains elevated relative to the Committee's 2% goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability.

INTEREST RATES (PRIME RATE)

The prime rate is often used as a base rate to price short-term business loans

In Q2 2026, the prime rate was 6.75%, holding steady since mid-December 2025. The Federal Reserve does not control the prime rate, but many banks base their prime rates partly on the target level of the federal funds rate.

PUBLIC MARKETS

In public markets, asset prices fluctuate with changes in future expectations.

Stock indices contracted over the first quarter of 2026:

- S&P 500 closed on June 30, 2026 up 14.1% (924.04 points) from Q1 2026
- Dow followed suit with a 12.4% (5,5753.46 points) increase as compared to the prior quarter end
- NASDAQ experienced the largest expansion, rising by 20.0% (4,372.77 points)

FORECAST BASED ON ECONOMIC INDICATORS

In June 2026, members of the FOMC submitted projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2026-2028 and over the longer run. These projections were based on information available at the time, assessment of appropriate monetary policy, and assumptions about other factors likely to affect economic outcomes.

The FOMC's June 2026 Summary of Economic Projections includes the following highlights:

The Federal Reserve's June 2026 median economic projections suggest a relatively stable economic outlook over the next several years. Real GDP growth is expected to remain modest, increasing from 2.2% in 2026 to 2.3% in 2027 before settling at 2.0% in 2028 and the longer run. The unemployment rate is projected to stay near historically low levels, ranging from 4.2% to 4.3%, indicating a resilient labor market.

Inflation, as measured by PCE inflation, is expected to decline significantly from 3.6% in 2026 to the Federal Reserve's 2.0% target by 2028, reflecting continued progress in price stability. Consistent with easing inflationary pressures, the federal funds rate is projected to gradually decline from 3.8% in 2026 to 3.4% in 2028, though it is expected to remain above the longer-run neutral rate of 3.1%. Overall, the projections point to a soft-landing scenario characterized by steady economic growth, controlled inflation, stable employment, and a gradual normalization of monetary policy.

MARKET IMPLIED INFLATION

The *Federal Reserve Bank of St. Louis* posts nominal and inflation-indexed constant maturity treasuries. Taking the difference between nominal yield and inflation-indexed yields provides a market-based estimate for inflation compensation over each maturing period. Below are the June 2026 results:

MARKET IMPLIED INFLATION	5 Year	7 Year	10 Year	20 Year	30 Year
Nominal Treasuries	4.20%	4.31%	4.44%	4.91%	4.90%
Treasury Inflation Protected Securities	1.97%	2.09%	2.235	2.54%	2.72%
Market Implied Inflation	2.23%	2.22%	2.21%	2.37%	2.18%

Source: *FRED: Selected Interest Rates Instruments, June 26, 2026*

TARIFFS

Tariffs and trade policy have been a primary topic of discussion over the previous year.

These policies include broad global duties ranging from 10% to 41% to address trade deficits, alongside sector-specific tariffs of 50% on steel and aluminum and 25% on automobiles and parts. As of June 30, 2026, U.S. trade policy remained notably protectionist, with a 10% tariff surcharge applied to most imports under Section 122, continued Section 301 tariffs on Chinese goods, and 50% Section 232 tariffs on steel, aluminum, and copper imports. These measures, intended to support domestic manufacturing and strengthen supply-chain resilience, also contributed to higher import costs and inflationary pressures for certain industries. The tariff environment remained fluid, with ongoing legal challenges and potential policy changes creating uncertainty for businesses engaged in international trade.

SUPPLY CHAIN ACTIVITY

Issues are gauged by integrating transportation cost data and manufacturing indicators.

A high Global Supply Chain Pressure Index (GSCPI) indicates a tightening of the global supply chain, while a lower number shows relaxation. Despite relatively stable readings in 2023 and 2024, conditions began to shift in 2025, with several months returning to positive territory with a year-end reading of 0.58 in December 2025.

This upward trend accelerated in 2026, with the index rising from 0.45 in January to a peak of 1.84 in April before easing slightly to 1.25 in June. The rise in positive readings in 2026 points to renewed supply chain pressures, possibly reflecting higher transportation costs, trade disruptions, increased demand, or geopolitical uncertainty.

WAR IN THE MIDDLE EAST

As of June 30, 2026, *the conflict in the Middle East* was creating upward pressure on energy prices, transportation costs, and inflation in the United States. Although the U.S. economy remained more insulated than many global peers due to its domestic energy production, higher oil prices and supply-chain uncertainty posed risks to consumer spending, business investment, and overall economic growth. The conflict also increased inflationary pressures, creating additional challenges for Federal Reserve policymakers and contributing to heightened economic uncertainty.

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ANTICIPATED IMPACT OF ARTIFICIAL INTELLIGENCE (AI)

For the U.S. economy, artificial intelligence is expected to provide a gradual boost to economic growth in 2026 primarily through higher productivity, increased business investment, and improved efficiency across industries such as finance, professional services, and technology.

Federal Reserve research shows that AI adoption has expanded rapidly, with approximately 18% of U.S. firms reporting AI use by the end of 2025. Significantly higher adoption rates in knowledge-intensive sectors suggests that AI is becoming an increasingly important tool for enhancing worker output and business processes. However, Federal Reserve officials emphasize that the economy-wide benefits are likely to develop over time rather than produce an immediate surge in growth, similar to other transformative technologies in U.S. history. As a result, AI is generally viewed as a positive long-term driver of productivity and competitiveness, while also creating challenges related to workforce training, job transitions, and the need for workers to adapt to changing skill requirements.

CURRENT EMPLOYMENT CONDITIONS – ALL INDUSTRIES

The U.S. labor market, a key indicator of the strength of the economy, has remained relatively unchanged. The FOMC will keep an eye on these trends to review economic conditions.

The *Bureau of Labor Statistics (BLS)* reported that the June 2026 unemployment rate (4.2%) and the number of unemployed persons (7.1 million), changed little from May 2026. The number of people not in the labor force who wanted a job remained at 6.0 million. BLS data showed notable gains in professional and business services, social assistance, and healthcare; while, leisure and hospitality experienced job losses.

Federal Reserve data indicated flat growth:

Employment rose on balance, with five Districts showing modest, moderate, or solid gains in employment, and with seven Districts experiencing little to no change. In the previous report, only one District had modest, moderate, or solid employment gains. Employment rose in a variety of industries, including manufacturing, construction, and retail. Skilled workers were difficult to find in a range of fields, notably technicians and tradespeople. Though there were reports of lower employment in a couple of Districts, the declines were small. Wage growth was modest to moderate in most Districts, though two saw only slight wage increases. Some wage increases were attributed to increased competition for skilled workers. A few Districts noted that firms had increased their usage of AI, either in the hiring and screening of potential employees or to boost worker productivity.

The U.S. unemployment rate remained relatively low, but upward trends between 2022 and mid-2026, indicated a gradual cooling of the labor market. After averaging in the mid-3% range in 2022 and 2023, unemployment increased in 2024, reaching a high of 4.3% in July. Labor market conditions weakened further in 2025, with the unemployment rate rising from 4.0% in January to 4.5% in November before ending the year at 4.4%. During the first half of 2026, unemployment remained elevated but relatively stable, ranging between 4.2% and 4.4%. Overall, the data suggests that while the labor market remains healthy by historical standards, hiring demand has moderated from the exceptionally tight conditions following the pandemic, reflecting slower economic growth and a gradual normalization of labor market conditions.

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INDUSTRIAL PRODUCTION & MANUFACTURING

The *Institute for Supply Management's (ISM)* Purchasing Managers Index (PMI) can be used to determine whether the manufacturing sector of the economy is expanding or contracting.

A 53.3% PMI in June 2026, indicated a 0.7% decrease from the prior month's reading. A reading above 47.5% generally marks an expanding manufacturing economy, while a PMI below 47.5% denotes contraction.

In June, U.S. manufacturing activity remained in expansion territory, growing at a slightly slower pace compared to the month before. Of the five subindexes that make up the PMI, the New Orders and Production indexes grew slower than the previous month; the Supplier Deliveries Index slowed at a slower rate; and the Employment and Inventories indexes improved, with the latter entering expansion territory.

HOUSING & NONRESIDENTIAL CONSTRUCTION

The *Dodge Momentum Index (DMI)* is issued monthly by Dodge Data & Analytics to measure the initial report for non-residential building projects in planning, which have been shown to lead non-residential construction spending.

Highlights through June of 2026 include:

- The DMI was 21.8% higher than in June 2025
- Commercial and Institutional projects were also up 21.8% compared to year-ago levels
- Removing data centers, the Commercial segment would be 7.6% higher than June 2025
- The DMI includes 59 projects valued at $100M+

Large commercial projects included: $500M Stak Energy AI Data Center Campus (AK); $480M Project Swan Data Center Complex (FL); and $456.8M Parcel A Data Center (VA). Significant institutional projects were: $437M DCSO Correctional Facility (TN); $320M Cone Health Hospital (NC); and $303M El Camino Health Hospital (CA).

Meet the Author: Allison Ezbiansky, CVA

As an Analyst with GYF's Business Valuation & Litigation Support Services team, Allison performs risk identification, financial statement analysis, economic and industry research, and financial modeling. She is involved in the process of valuing privately held companies for various purposes. Allison graduated from Robert Morris University's Honors Program with a BS/BA in Finance and Accounting in May 2024 and has since obtained her Certified Valuation Analyst credential.