

Economic overview and forecast for **2026 Q2**

Robert J. Leibfried, CPA, ABV, CDFA | Shareholder | Honkamp, P.C.





I. General Economic Overview

Summary of General Economic Overview – United States¹

The U.S. economy continued to expand in the second quarter of 2026, although growth slowed compared to the first quarter. The labor market remained resilient, inflation stayed above the Federal Reserve's target despite easing late in the quarter, and the Federal Reserve left its benchmark interest rate unchanged while maintaining a cautious, data-dependent policy stance.

Real GDP increased at an annualized rate of 1.5% during the quarter. Consumer spending remained the primary driver of growth, supported by robust business investment and exports, while stronger imports partially offset those gains in the GDP calculation. In contrast, government spending weighed on overall economic growth after rebounding sharply in the first quarter following the fourth-quarter 2025 government shutdown.

Inflation remained elevated on a year-over-year basis, with energy prices remaining a significant contributor to inflation. In June, however, the Consumer Price Index declined from the prior month as gasoline and fuel oil prices retreated. Crude oil prices also fell sharply over the quarter despite continued geopolitical tensions in the Middle East.

Labor market conditions changed little during the quarter. The unemployment rate declined modestly to 4.2% in June. However, hiring remained concentrated in a handful of service industries, including professional and business services, health care, and social assistance, with employment showing little change across most other major sectors.

Financial markets rebounded strongly from the first-quarter losses. Technology stocks led the recovery, with the tech-heavy NASDAQ Composite and NASDAQ-100 posting the strongest quarterly gains among the major U.S. equity indexes. The S&P 500 and Dow Jones Industrial Average also recorded solid advances. The Dow Jones Utilities Average was the only major index among those analyzed to post a modest quarterly decline.

Housing market conditions remained mixed during the second quarter. The S&P CoreLogic Case-Shiller 20-City Home Price Index was essentially unchanged between February and May 2026 and was 1.6% higher than a year earlier, with price trends varying across metropolitan areas. Housing starts recovered in June following a weak May but ended the quarter 6.2% below their March level. The inventory of existing homes remained slightly above the previous year's levels.

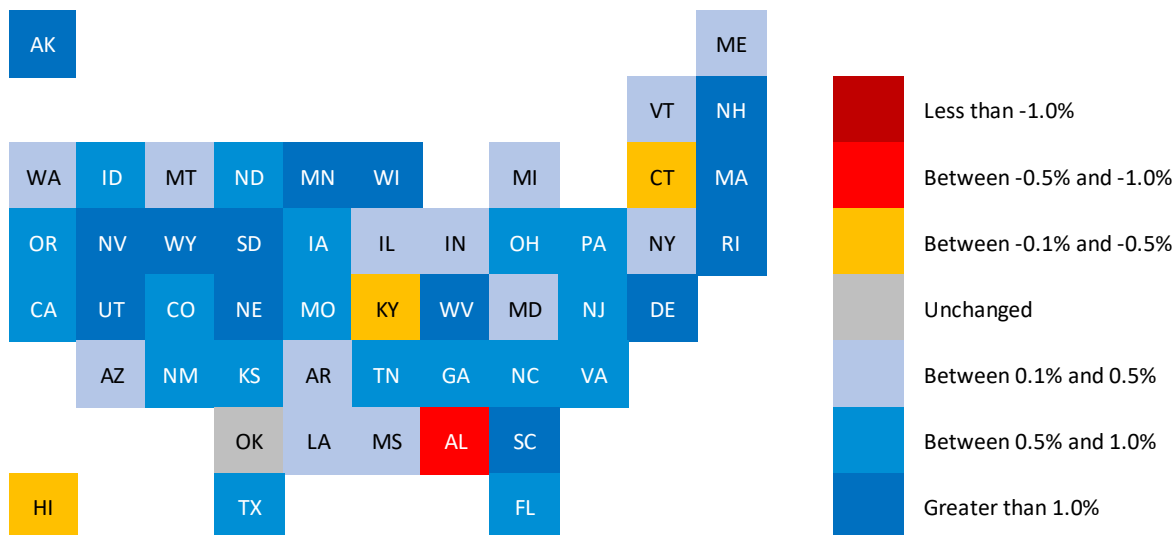
The Federal Reserve maintained the federal funds target range at 3.50% to 3.75% throughout the quarter. In its June meeting, the Federal Open Market Committee revised its near-term inflation outlook sharply upward and its near-term growth outlook slightly downward. Longer-term inflation projections increased modestly, while longer-term growth projections and short- and long-term unemployment forecasts changed little. The Committee reaffirmed its commitment to achieving maximum employment and 2% inflation, emphasizing that future policy decisions would continue to depend on incoming economic data.

¹ Economic Outlook Update™ Q2 2026 published by TagniFi, LLC, © 2026.



A multifactor indicator of economic strength, the Philadelphia Fed's coincident index² of economic activity in the U.S. rose 0.2% in June 2026 and 0.6% during the three-month period. For the three months, the index increased in 45 states, remained unchanged in 1 state, and decreased in 4 states. Coincident indexes reflect unemployment, payroll employment, manufacturing hours, and wages and salaries.

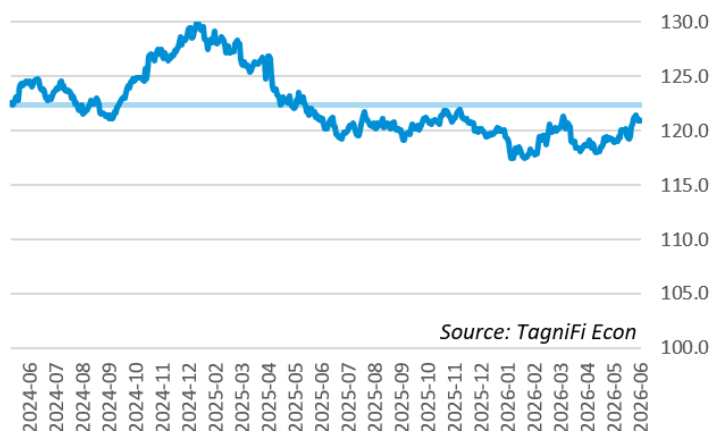
June 2026 State Coincident Indexes: 3-Month Change



Source: TagniFi Econ

The U.S. dollar index for goods and services³ was essentially unchanged during the second quarter, edging down by 0.1% based on quarter-end readings. The flat performance followed a sharp decline in 2025 and a rebound in the first quarter of 2026. Market expectations of tighter monetary policy and continued demand for U.S. assets likely helped support the dollar.⁴ On a year-over-year basis, the index was up 1.3%.

Trade Weighted U.S. Dollar Index



² Federal Reserve Bank of Philadelphia, Coincident Economic Activity Index for the United States [USPHCI], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/USPHCI>, August 3, 2026.

³ Board of Governors of the Federal Reserve System (US), Trade Weighted U.S. Dollar Index: Broad, Goods and Services [DTWEXBGS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DTWEXBGS>, August 3, 2026.

⁴ Morningstar, "Will the US Dollar Rally Continue", retrieved from <https://www.morningstar.com/economy/will-us-dollar-rally-continue>, August 3, 2026.

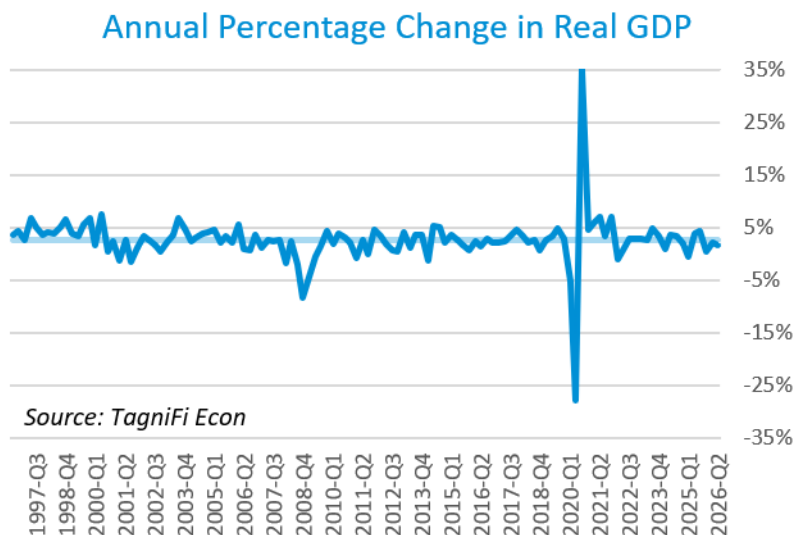


Economic Highlights

- The Philadelphia Fed's coincident index of economic activity in the U.S. rose 0.2% in June 2026 and 0.6% during the three-month period.
- The U.S. dollar index was essentially unchanged in the second quarter of 2026, inching down 0.1%, while increasing by 1.3% year-over-year.
- Real GDP expanded at an annualized rate of 1.5% during the second quarter of 2026.
- The effective federal funds rate remained unchanged at 3.75% in the second quarter.
- The 1-year and 2-year Treasury yields ended the second quarter at 3.98% and 4.14%, respectively. The benchmark 10-year Treasury yielded 4.44% at the end of the quarter, while the 30-year Treasury yielded 4.91%.
- The unemployment rate ended the second quarter at 4.2%, slightly lower than 4.3% in the prior quarter. Nonfarm payrolls inched up by 0.3 million jobs in the second quarter.
- The Consumer Price Index for all items rose 3.5% for the year ended June 2026. Excluding volatile energy prices, the annual increase was 2.6%.
- Crude oil prices ended the second quarter at \$70.56 per barrel, down 31.4% from the prior quarter and up 6.4% year-over-year.
- New home starts decreased by 6.2% between March and June 2026 to stand at 1.4 million in June 2026. Total new home starts were up 3.5% year-over-year.
- The NASDAQ Composite surged 21.4% during the second quarter. The S&P 500 and Dow Jones Industrial Average added 14.9% and 12.9%, respectively. The Dow Jones Transportation and Dow Jones Composite Average added 16.9% and 12.1%, respectively. Dow Jones Utilities Average lost 1.1% in the second quarter.

Business Activity

Real gross domestic product (GDP)⁵ increased at a weaker-than-expected annualized rate of 1.5% during the second quarter of 2026, down from 2.1% in the first quarter of 2026. Growth reflected increases in consumer spending, private investment, and exports. Imports, which are a subtraction in the calculation of GDP, also increased during the quarter. The slower pace of real GDP growth in the second quarter reflected a decline in government spending, following a sharp rebound in the first quarter after the fourth-quarter 2025 government shutdown. The strength in private investment reflected robust growth in industrial equipment, transportation equipment, information processing equipment, and intellectual property products, consistent with continued investment in AI-related infrastructure and technology.



⁵ U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/GDPC1>, August 3, 2026.



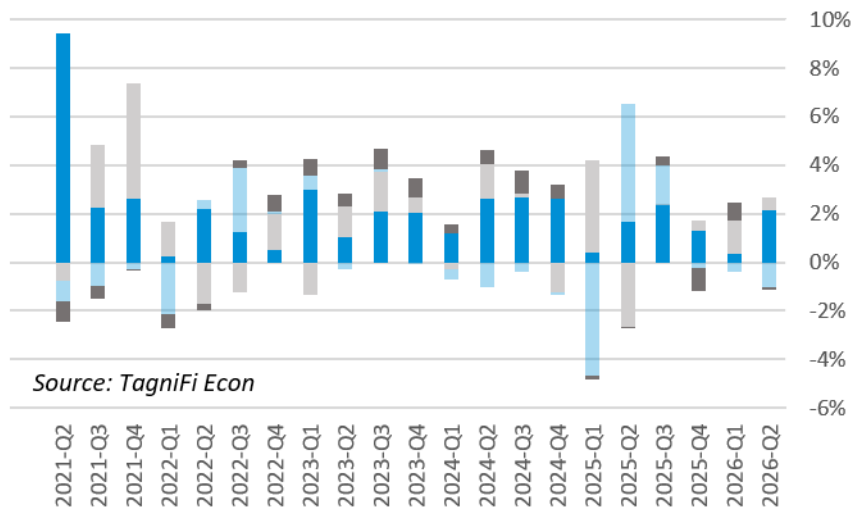
Personal consumption expenditures⁶ (PCE) had a positive 2.1% effect on real GDP in the second quarter of 2026, up from 0.4% in the first quarter. A rise in spending on services, especially health care (including hospital and nursing home and outpatient services), food services and accommodations, recreation services, and financial services and insurance contributed to PCE growth. Spending on both durable and nondurable goods increased during the quarter. Within the durable goods category, spending on motor vehicles and parts increased.

Gross private domestic investment⁷ had a positive impact on GDP, increasing the second quarter real GDP estimate by 0.5%. Investment in inventories decreased during the quarter, with wholesale trade being the largest contributor to the decrease in private inventory investment. The increase in nonresidential fixed investment reflected robust growth in industrial equipment, transportation equipment, information processing equipment, and intellectual property products (such as software). Residential fixed investment rebounded slightly in the second quarter following a decline in 2025 and the first quarter of 2026.

Government expenditures⁸ declined slightly in the second quarter, subtracting 0.1% from real GDP. The decrease in government spending was primarily attributed to a downturn in federal non-defense consumption following the decline in the fourth quarter of 2025 amid the government shutdown and a sharp rebound in the first quarter of 2026. State and local government spending increased slightly during the second quarter of 2026.

Net exports⁹ decreased in the second quarter, subtracting 1.0% from real GDP, as an increase in imports (which have a negative impact on GDP) outweighed the increase in exports. The increase in both exports and imports was largely attributed to an increase in goods.

Contributions to Percent Change in Real GDP



Source: TagniFi Econ

■ Government Consumption Expenditures ■ Net Exports of Goods and Services
■ Gross Private Domestic Investment ■ Personal Consumption Expenditures

⁶ U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Personal consumption expenditures [DPCERY2Q224SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DPCERY2Q224SBEA>, August 3, 2026.

⁷ U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Gross private domestic investment [A006RY2Q224SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A006RY2Q224SBEA>, August 3, 2026.

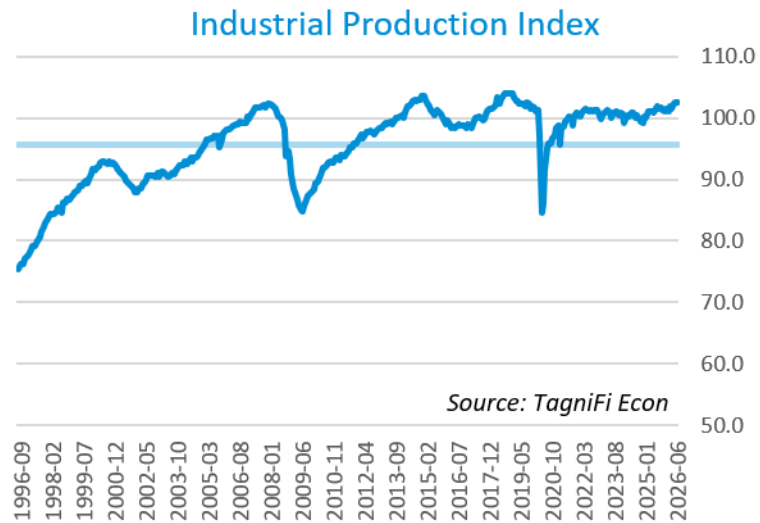
⁸ U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Government consumption expenditures and gross investment [A822RY2Q224SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A822RY2Q224SBEA>, August 3, 2026.

⁹ U.S. Bureau of Economic Analysis, Contributions to percent change in real gross domestic product: Net exports of goods and services [A019RY2Q224SBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/A019RY2Q224SBEA>, August 3, 2026.

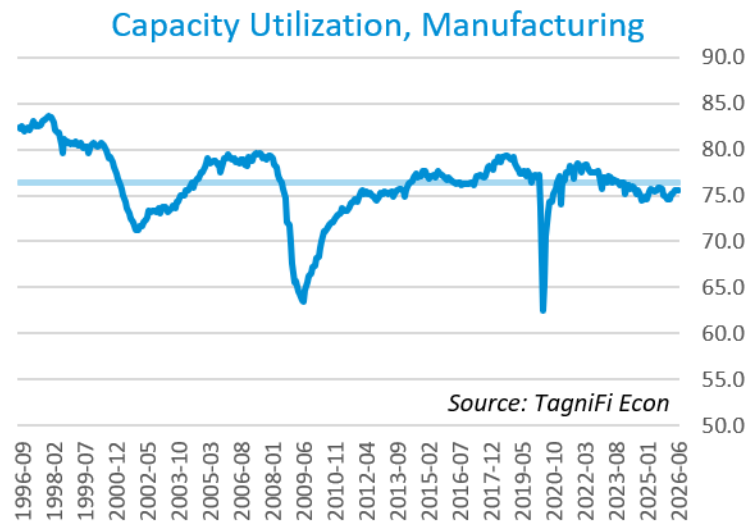


Economists polled by the Livingston Survey¹⁰ in June 2026 projected real GDP to remain at an annual rate of 2.0% through 2026 and continue to grow at an annual rate of 1.8% in the first half of 2027.

The Industrial Production Index¹¹ is an economic indicator that measures real output for all facilities located in the United States manufacturing, mining, and electric and gas utility sectors. The index stood at 102.6 at the end of the second quarter of 2026, up 1.0% from the first quarter of 2026.



The Capacity Utilization Index¹², which attempts to capture industrial output as a percentage of the economy's maximum production capacity, ended the second quarter of 2026 at 75.6%. June's level was below the 30-year average of 76.4% for this metric and up slightly from the previous quarter.



¹⁰ Federal Reserve Bank of Philadelphia, The Livingston Survey June 2026, [economic release], retrieved from <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/livingston-2026-06>, August 3, 2026.

¹¹ Board of Governors of the Federal Reserve System (US), Industrial Production Index [INDPRO], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/INDPRO>, August 3, 2026.

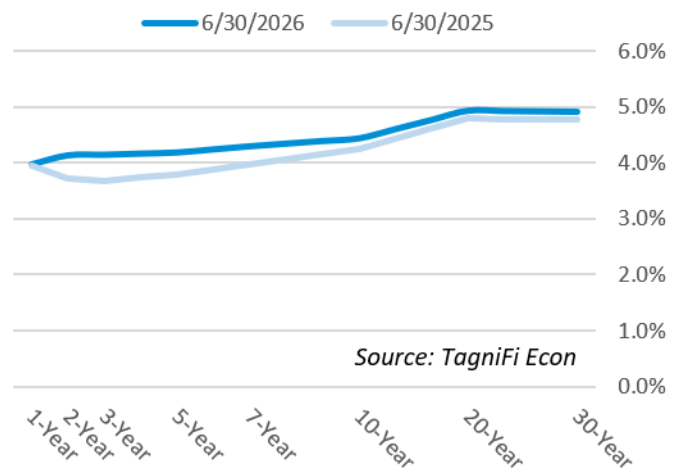
¹² Board of Governors of the Federal Reserve System (US), Capacity Utilization, Manufacturing (NAICS), retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MCUMFN>, August 3, 2026.



Interest Rates

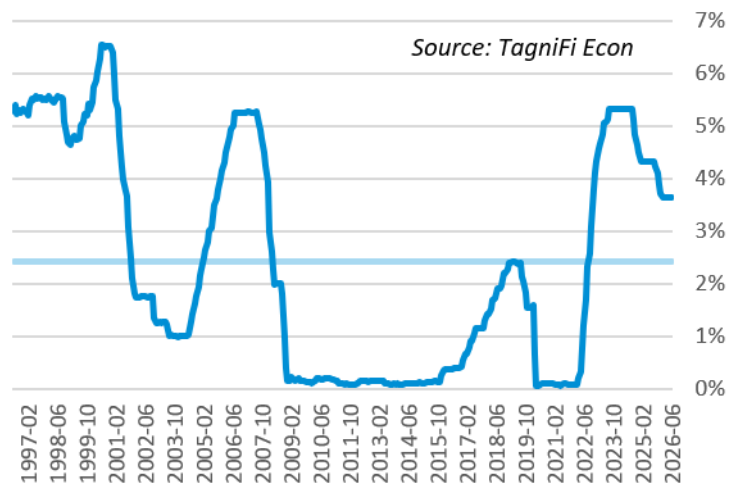
Treasury yields¹³ generally increased during the second quarter, with 1-year through 10-year and 20-year yields edging up and the 30-year yield slightly increasing. The closely watched two-year yield remained below the ten-year rate. The 1-year and 2-year Treasury yields ended the second quarter at 3.98% and 4.14%, respectively. The benchmark 10-year Treasury yielded 4.44% at the end of the quarter, while the 30-year Treasury yielded 4.91%.

U.S. Treasury Yield Curve



In the second quarter of 2026, the Federal Reserve maintained a cautious, data-driven policy approach, holding the benchmark interest rate steady and maintaining the target range for the federal funds rate of 3.50% to 3.75%.¹⁴ The effective federal funds rate remained at 3.75% during the quarter. In explaining its decision, the Federal Open Market Committee (FOMC) observed that inflation remained above its 2% objective. At the same time, the Committee observed that economic activity continued to expand steadily, supported by strong productivity and capital investment despite global uncertainty, including the conflict in the Middle East. Overall, the second quarter's interest rate range reflects a decline from the 23-year high of 5.25% to 5.50%.

Federal Funds Rate



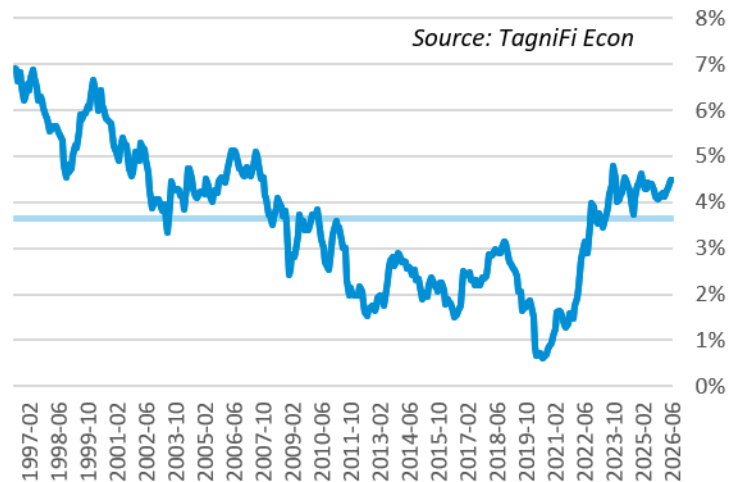
¹³ Selected Interest Rates Instruments, Yields in percent per annum, *retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/release/tables?rid=18&eid=289&od=2026-03-31#>, August 3, 2026.*

¹⁴ Board of Governors of the Federal Reserve System (US), Federal Funds Target Range - Upper Limit [DFEDTARU], *retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DFEDTARU>, August 3, 2026.*



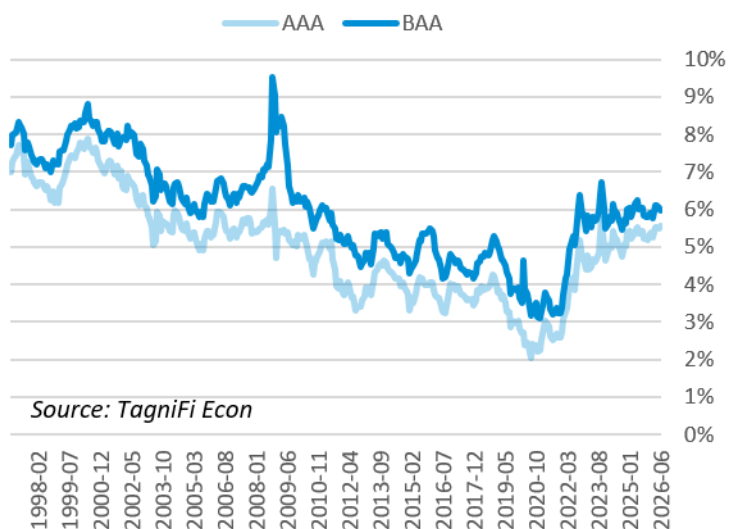
The yield on the benchmark 10-year U.S. Treasury¹⁵ ended the second quarter at 4.44%, up 0.14% from the previous quarter and above the average yield of 3.64% over the last 30 years.

10-Year US Treasury Yield



Moody's Baa Corporate Bond Yield Index¹⁶ ended the second quarter of 2026 at 5.97%, down 0.12% from the previous quarter. Moody's less-risky Aaa¹⁷ Bond Yield Index increased by 0.02% during the quarter to 5.55%.

Moody's Corporate Bond Yields



¹⁵ Board of Governors of the Federal Reserve System (US), 10-Year Treasury Constant Maturity Rate [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DGS10>, August 3, 2026.

¹⁶ Moody's, Moody's Seasoned Baa Corporate Bond Yield [DBAA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DBAA>, August 3, 2026.

¹⁷ Moody's, Moody's Seasoned Aaa Corporate Bond Yield [DAAA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DAAA>, August 3, 2026.



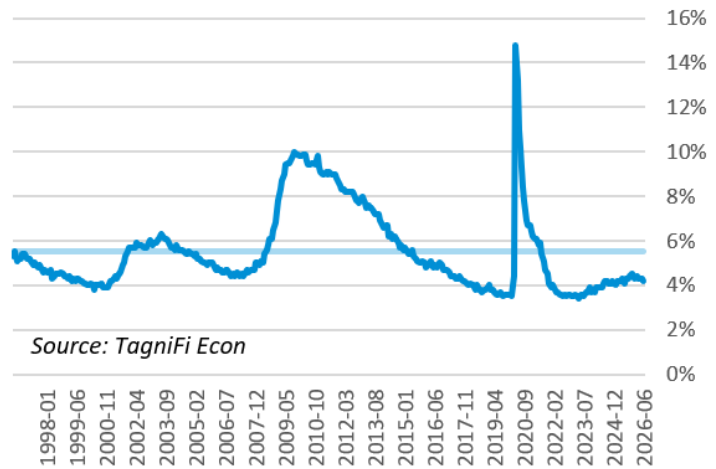
Employment

The jobs market showed mixed results in the second quarter, with the unemployment rate remaining steady and labor force declining. The official unemployment rate¹⁸ ended the quarter at 4.2%, slightly down from the prior quarter's unemployment rate of 4.3% and well below the 30-year historical average of 5.5%. The unemployment rate remained within the 4.0% to 5.0% range accepted as an equilibrium level of "full employment." The labor force¹⁹ declined by 0.7 million workers during the quarter, while the labor force participation rate²⁰ decreased slightly to 61.5% in June 2026 from 61.9% in March 2026. Economists polled by the Livingston Survey in June 2026 projected the unemployment rate to stand at 4.3% in June 2026, increase to 4.5% by December 2026, and remain at that level through June 2027.

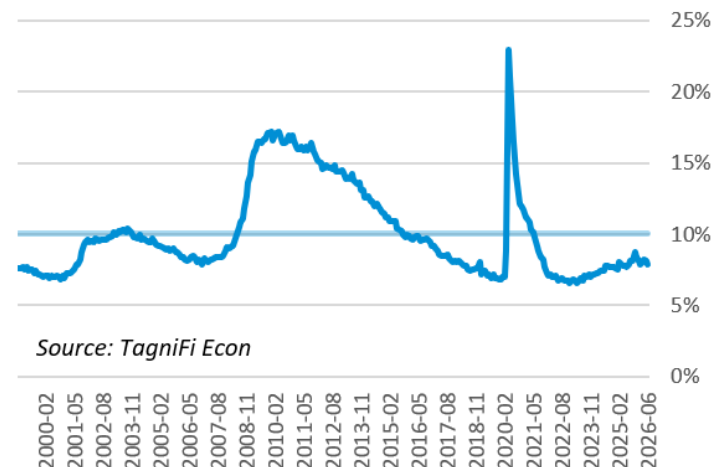
In June 2026, nonfarm worker quits²¹ stood at 3.2 million, up 2.5% over the month and down 0.7% over the year. Job openings²² totaled 7.4 million in June 2026, 2.3 times the number of resignations. The job openings count decreased by 2.4% from May 2026 and increased by 2.2% from June 2025.

The U-6 unemployment rate²³ is an alternative measure of unemployment with a broader definition, including groups such as discouraged workers who are not actively searching for jobs but want full-time work and part-time workers who want full-time work. The U-6 unemployment rate has generally followed the same pattern as the official rate and stood at 7.9% in June 2026.

Civilian Unemployment Rate



U-6 Unemployment Rate



¹⁸ U.S. Bureau of Labor Statistics, Civilian Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UNRATE>, August 3, 2026.

¹⁹ U.S. Bureau of Labor Statistics, Civilian Labor Force Level [CLF16OV], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CLF16OV>, August 3, 2026.

²⁰ U.S. Bureau of Labor Statistics, Labor Force Participation Rate [CIVPART], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CIVPART>, August 3, 2026.

²¹ U.S. Bureau of Labor Statistics, Quits: Total Nonfarm [JTSQUL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/JTSQUL>, August 4, 2026.

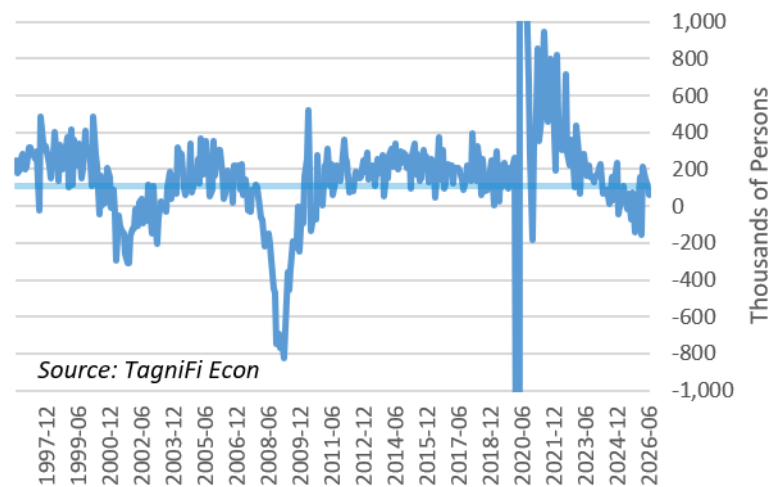
²² U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm [JTSJOL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/JTSJOL>, August 4, 2026.

²³ U.S. Bureau of Labor Statistics Total Unemployed, Plus All Persons Marginally Attached to the Labor Force, Plus Total Employed Part Time for Economic Reasons, as a Percent of the Civilian Labor Force Plus All Persons Marginally Attached to the Labor Force (U-6) [U6RATE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/U6RATE>, August 3, 2026.



Nonfarm payrolls²⁴ added 0.3 million jobs in the second quarter of 2026 and 0.1 million in the month of June 2026, suggesting that the labor market continued to expand, albeit at a slower pace by the end of the quarter. U.S. nonfarm payrolls in June totaled 159.0 million jobs, up 0.5 million from the prior year. Job gains in June were concentrated in health care, professional and business services, and social assistance sectors, while employment in leisure and hospitality declined.

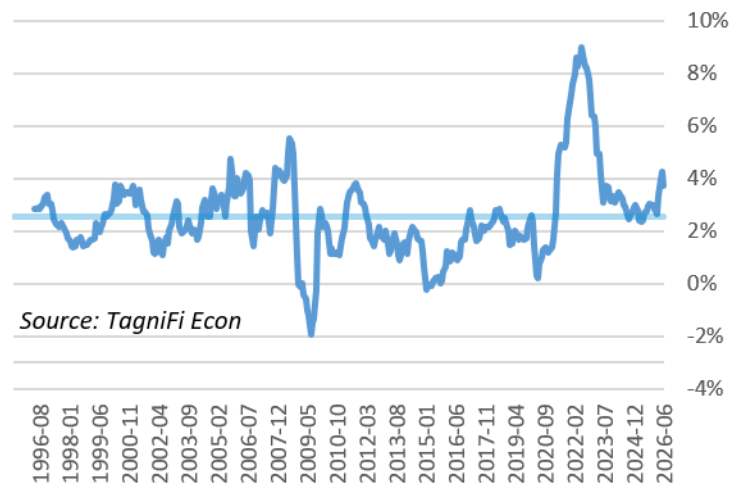
Change in Nonfarm Payrolls



Inflation

In the second quarter of 2026, the pace of inflation accelerated compared to the previous quarter. The Consumer Price Index²⁵ for all items rose 3.5% for the year ended June 2026. The year-over-year increase was driven primarily by energy prices, led by a sharp rise in gasoline and fuel oil prices. Since last June, notable price increases have included utilities, transportation services, and medical care services. On the other hand, prices of used cars and trucks declined slightly year-over-year. Excluding volatile energy prices²⁶, the annual increase was 2.6%. The average price of a gallon of gas²⁷ in the U.S. increased sharply since March 2026 amid heightened tensions in the Middle East, reaching \$4.20 at the end of the second quarter of 2026, an increase of 9.2% quarter-over-quarter and 26.9% year-over-year.

Consumer Price Index



The Consumer Price Index declined by 0.4% in June 2026 compared to May 2026. In the month of June, gasoline and fuel oil prices declined compared to the previous month. Outside of energy, monthly price changes were generally modest.

After raising the federal funds rate by a cumulative 5.25 percentage points from March 2022 through July 2023, the Federal Reserve began easing policy in late 2024, cutting rates by a total of 1.00 percentage point across November and December 2024. In 2025, the Fed initially held rates steady in the first half of the year, before resuming gradual easing with a 0.25 percentage point cut in September and additional 0.25 percentage point cuts in both October and December, bringing total rate reductions for 2025 to 0.75 percentage points. As of June 2026,

²⁴ U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm Payrolls [PAYEMS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PAYEMS>, August 3, 2026.

²⁵ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIAUCSL>, August 3, 2026.

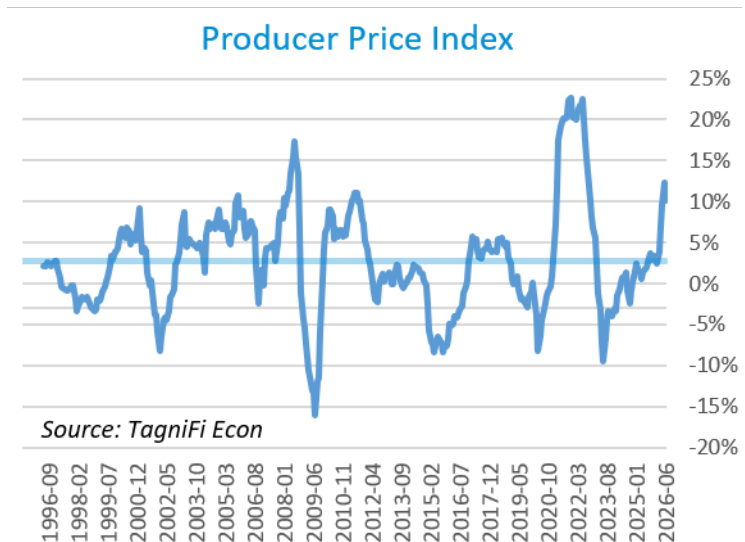
²⁶ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Energy in U.S. City Average [CPILEGSL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPILEGSL>, August 3, 2026.

²⁷ U.S. Bureau of Labor Statistics, Average Price: Gasoline, Unleaded Regular (Cost per Gallon/3.785 Liters) in U.S. City Average [APU000074714], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/APU000074714>, August 3, 2026.

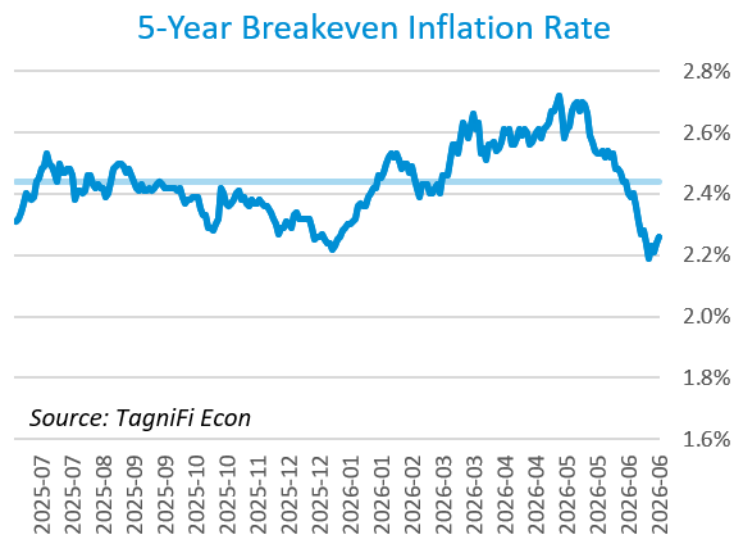


the Fed has paused further adjustments and maintained the target range while signaling a cautious, data-dependent approach amid persistent inflation, steady employment, and heightened geopolitical uncertainty.

Wholesale inflation increased sharply during the second quarter of 2026. The Producer Price Index²⁸ increased by 3.9% in the second quarter of 2026 and increased by 10.1% since June 2025. The average annual increase over the last 30 years was 2.8%.



The 5-year breakeven inflation rate²⁹, an indicator of the market's inflation expectations for the period, decreased to 2.3% at the end of the second quarter of 2026 from 2.5% at the end of the first quarter.

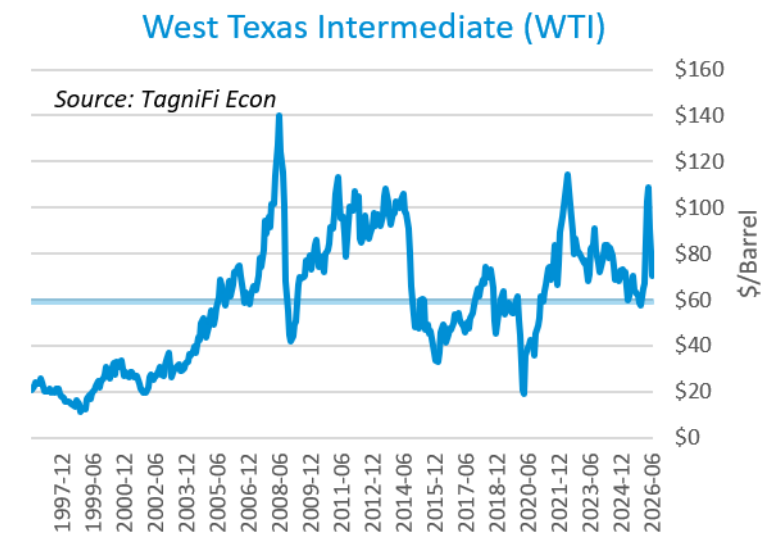


²⁸ U.S. Bureau of Labor Statistics, Producer Price Index for All Commodities [PPIACO], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PPIACO>, August 3, 2026.

²⁹ Federal Reserve Bank of St. Louis, 5-Year Breakeven Inflation Rate [T5YIE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/T5YIE>, August 3, 2026.

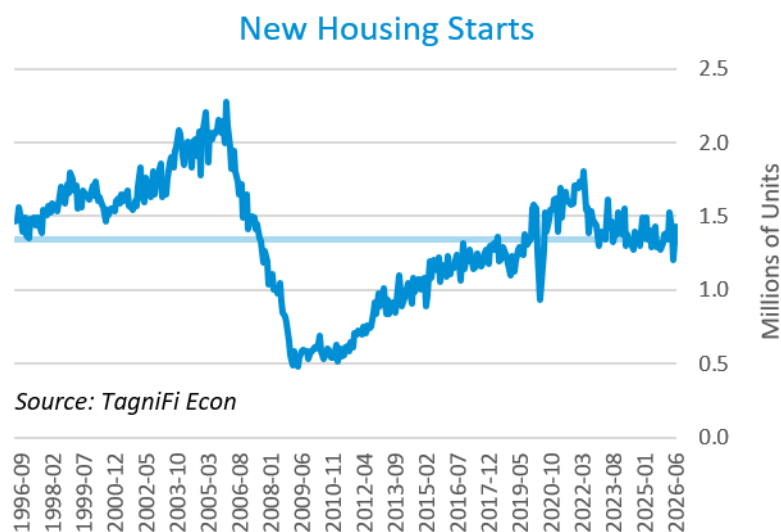


U.S. crude oil³⁰ prices decreased sharply in the second quarter, settling at \$70.56 per barrel at the end of the quarter despite ongoing tensions involving Iran. Crude prices ended the second quarter down 31.4% from the prior quarter and up 6.4% year-over-year.



Housing

The inventory of unsold homes decreased by 0.6% compared to the previous month and increased by 1.3% from June 2025. The median existing home sales price was up 1.8% compared to last year. The median sales price increased year-over-year in all four regions.³¹ New home starts³² rebounded in June from the previous month but remained below their March 2026 level, decreasing 6.2% between March 2026 and June 2026 to stand at 1.4 million. The decline in new home starts reflects lower single-family and multifamily starts during the second quarter of 2026 compared to the first quarter. Total new home starts were up 3.5% year-over-year and registered a slightly higher reading compared to the 30-year average of 1.3 million.



³⁰ U.S. Energy Information Administration, Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma [DCOILWTICO], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DCOILWTICO>, August 3, 2026.

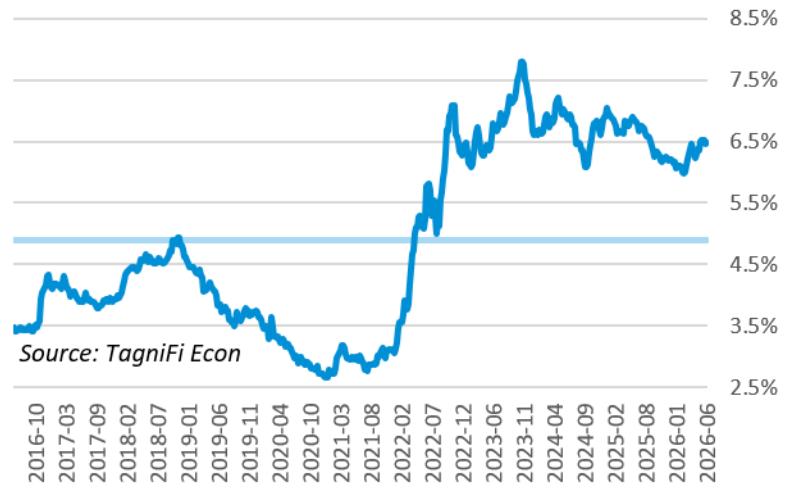
³¹ NAR Existing-Home Sales Report Shows 2.4% Decrease in June; <https://www.nar.realtor/newsroom/nar-existing-home-sales-report-shows-2-4-decrease-in-june>, August 3, 2026.

³² U.S. Bureau of the Census, Housing Starts: Total: New Privately Owned Housing Units Started [HOUST], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/HOUST>, August 3, 2026.



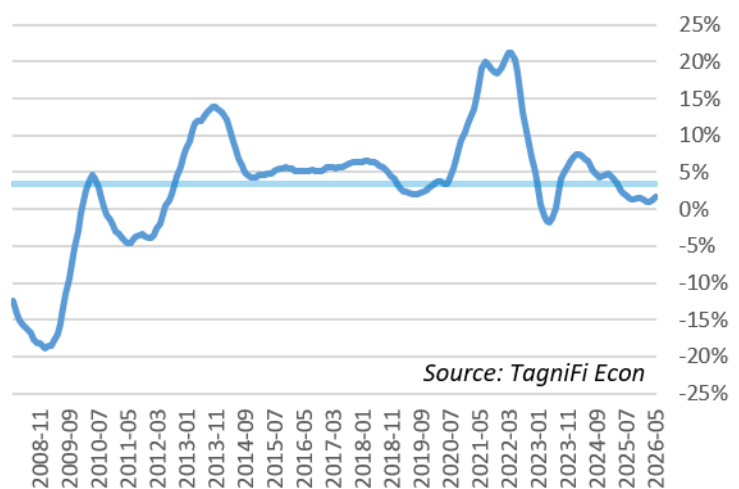
The cost of financing for would-be homebuyers increased during the second quarter, with the 30-year fixed-rate mortgage³³ up 0.11 percentage points to an average of 6.49% at the end of June 2026. The average rate was 1.3% lower than its peak of 7.79% in late October 2023.

30-Year Mortgage Rate



The S&P Case-Shiller Home Price Index (20-city)³⁴ for May 2026 inched down by 0.02% from February 2026 and increased by 1.6% since May 2025. While 11 of the 20 cities recorded year-over-year increases, prices declined in 7 areas and remained effectively unchanged in one area (Atlanta). Data for Detroit was not reported. Chicago, New York, Cleveland, and Boston reported the highest annual gains of 6.9%, 4.2%, 3.1%, and 2.7%, respectively. Las Vegas, Seattle, Denver, and Tampa indexes fell 1.9%, 1.8%, 1.8%, and 1.6% year-over-year, respectively. While the housing data shows significant regional variations, May 2026 readings point to a seasonal strength rather than a rebound in housing prices.³⁵

S&P Case-Shiller Home Price Index



³³ Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MORTGAGE30US>, August 3, 2026.

³⁴ S&P Dow Jones Indices LLC, S&P/Case-Shiller 20-City Composite Home Price Index [SPCS20RSA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SPCS20RSA>, August 3, 2026.

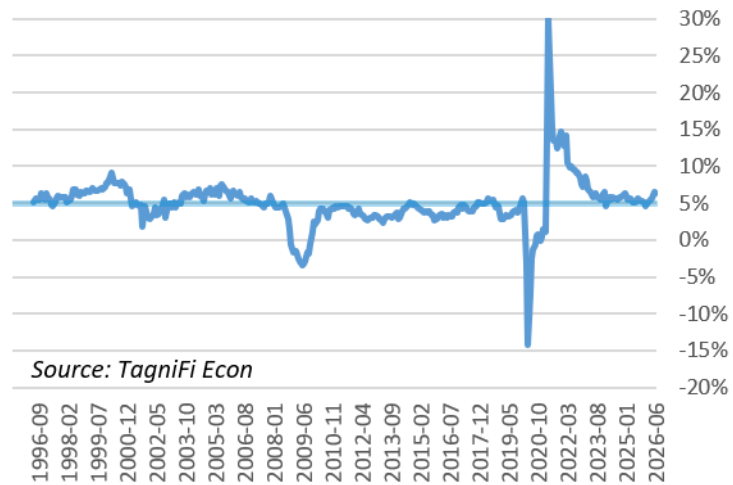
³⁵ S&P Cotality Case-Shiller Index Reports Annual Gain in May 2026; <https://www.spglobal.com/spdji/en/index-announcements/article/sp-cotality-case-shiller-index-reports-annual-gain-in-may-2026/>, August 3, 2026.



Consumer Spending

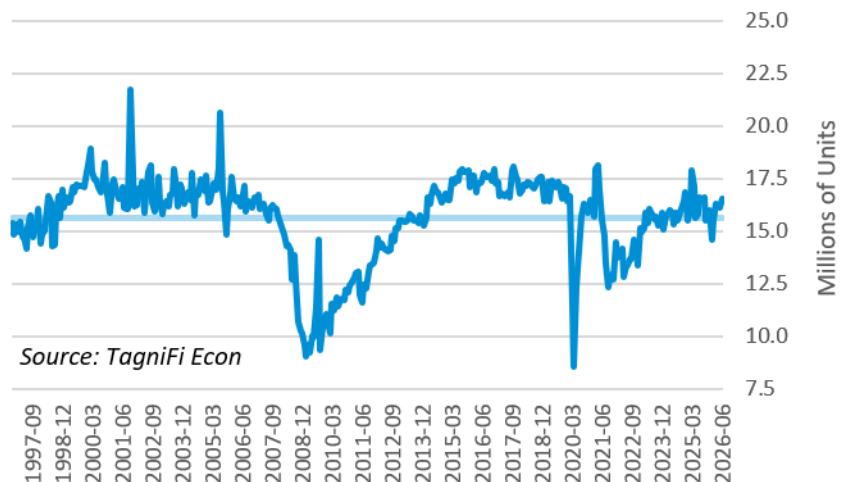
Personal Consumption Expenditures (PCE)³⁶ rose 1.7% in the second quarter of 2026 to \$22.2 trillion and 6.3% year-over-year. Spending increased in June for services such as healthcare services, financial services and insurance, and transportation services.³⁷ Goods spending also increased, led by an increase in spending on motor vehicles and parts and recreational goods and vehicles. Spending on gasoline and other energy goods declined sharply in June.

Personal Consumption Expenditures



Auto manufacturers reported autos and light trucks sold³⁸ at an annual rate of 16.6 million in June 2026, up 1.5% from March. New vehicle prices³⁹ increased 0.2% during the second quarter, remaining near their record high. Used car prices⁴⁰ inched down by 0.1% from March 2026 to June 2026.

Auto and Light Truck Sales



³⁶ U.S. Bureau of Economic Analysis, Personal Consumption Expenditures [PCE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PCE>, August 3, 2026.

³⁷ U.S. Bureau of Economic Analysis, Personal Income and Outlays, June 2026; <https://www.bea.gov/news/2026/personal-income-and-outlays-june-2026>, August 3, 2026.

³⁸ U.S. Bureau of Economic Analysis, Light Weight Vehicle Sales: Autos and Light Trucks [ALTSALES], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/ALTSALES>, August 3, 2026.

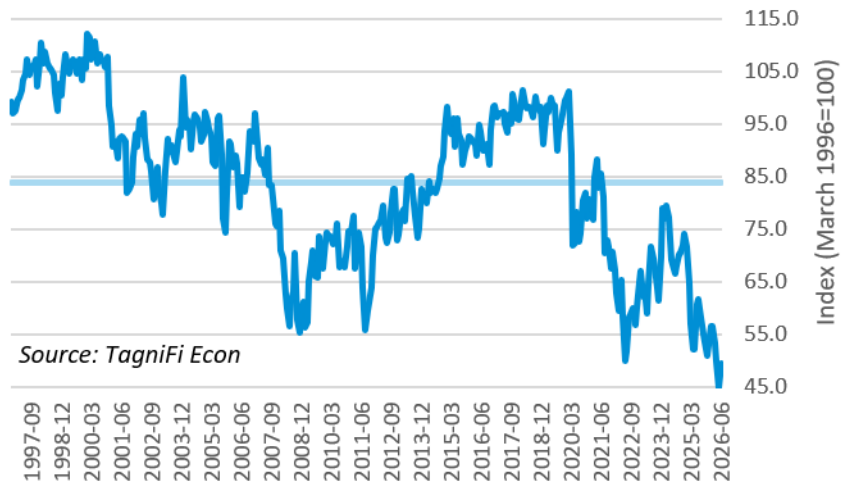
³⁹ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: New Vehicles in U.S. City Average [CUUR0000SETA01], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CUUR0000SETA01>, August 3, 2026.

⁴⁰ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Used Cars and Trucks in U.S. City Average [CUSR0000SETA02], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CUSR0000SETA02>, August 3, 2026.



The University of Michigan's consumer sentiment index⁴¹ stood at 49.5 in June 2026, up from the record low of 44.8 in May 2026, but down from 53.3 in March 2026. Elevated inflation and volatile energy prices likely weighed on consumer sentiment during the second quarter. The index was down 18.5% year-over-year and well below its 30-year average of 83.9.

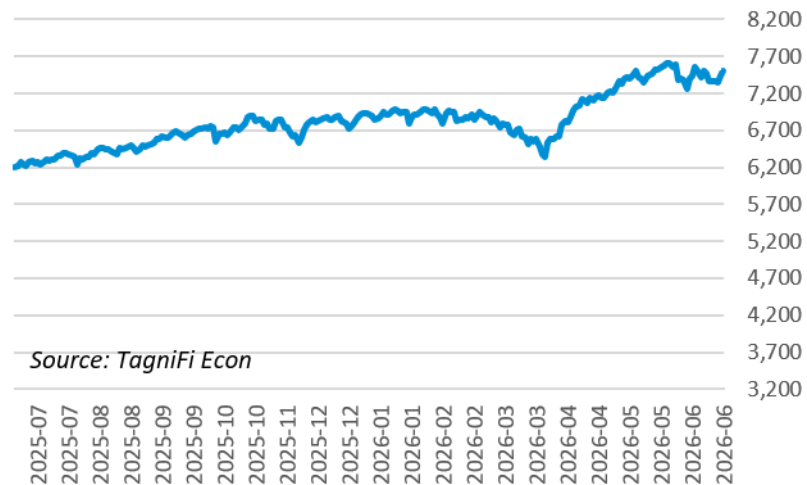
Consumer Sentiment Index



Capital Markets

The table below shows the quarterly, year-to-date, and 12-month performance of the major U.S. equity indices. The stock market surged in the second quarter of 2026, reversing the first quarter losses and shaking off geopolitical tensions, volatile energy prices, and concerns about AI spending.

S&P 500



⁴¹ University of Michigan, University of Michigan: Consumer Sentiment [UMCSENT], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UMCSENT>, August 3, 2026.



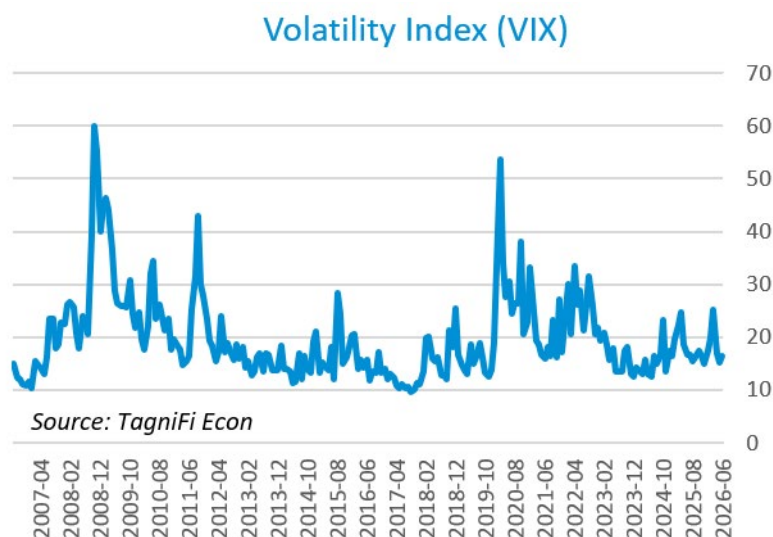
The second-quarter rally was broad-based, with tech-heavy Nasdaq indexes outperforming the S&P 500 and Dow Jones indexes. During the quarter, the NASDAQ Composite and the NASDAQ 100 rose 21.4% and 27.5%, respectively. The broader S&P 500 added 14.9%, while the Dow Jones Industrial Average added 12.9%. The performance of other Dow Jones averages diverged: the Dow Jones Transportation Average and Dow Jones Composite Average rose 16.9% and 12.1%, respectively, while the Dow Jones Utility Average declined slightly by 1.1% during the quarter.

Equity Index	Closing Value	% Change		
		Quarter	YTD	12-Mo.
S&P 500	7,499.36	14.9%	9.6%	20.9%
Dow Jones Industrial Average	52,319.20	12.9%	8.9%	18.7%
Dow Jones Composite Average	16,793.26	12.1%	12.4%	22.3%
Dow Jones Transportation Average	21,749.79	16.9%	25.3%	41.3%
Dow Jones Utility Average	1,146.08	-1.1%	7.3%	8.7%
NASDAQ Composite	26,213.72	21.4%	12.8%	28.7%
NASDAQ 100	30,276.35	27.5%	19.9%	33.5%

The corporate bond indexes registered positive returns during the second quarter, with the ICE BofA US Corporate Index⁴² adding 1.4% and the ICE BofA US High Yield Index⁴³ increasing by 2.5%.

Bond Index	Closing Value	% Change		
		Quarter	YTD	12-Mo.
ICE BofA US Corporate Bond Index	3,623.16	1.4%	1.0%	4.5%
ICE BofA US High Yield Bond Index	1,902.38	2.5%	1.9%	5.7%

As measured by the VIX⁴⁴, stock market volatility ended the second quarter of 2026 at 16.5, down 34.9% from the end of the previous quarter and down 1.7% year-over-year. Although VIX ended the quarter at a relatively subdued level, it experienced several temporary spikes during the quarter as investors responded to changing expectations for Federal Reserve policy and geopolitical tensions in the Middle East.



⁴² Ice Data Indices, LLC, ICE BofA US Corporate Index Total Return Index Value [BAMLCC0A0CMTRIV], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLCC0A0CMTRIV>, August 3, 2026.

⁴³ Ice Data Indices, LLC, ICE BofA US High Yield Index Total Return Index Value [BAMLHYH0A0HYM2TRIV], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/BAMLHYH0A0HYM2TRIV>, August 3, 2026.

⁴⁴ Chicago Board Options Exchange, CBOE Volatility Index: VIX [VIXCLS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/VIXCLS>, August 3, 2026.



Outlook

The Federal Open Market Committee (FOMC) left the interest rate unchanged during the second quarter, noting elevated inflation, a stable labor market, and economic uncertainty related in part to the conflict in the Middle East. The Fed revised the near-term PCE inflation outlook sharply upward, and the near-term real GDP growth forecasts slightly downward. Longer-term GDP outlook changed little, while the long-term inflation outlook increased modestly. Short- and long-term unemployment forecasts were minimally revised.

The FOMC revised the projections for Personal Consumption Expenditures (PCE) inflation⁴⁵ to 3.60% in 2026. The updated 2027 and 2028 projections stood at 2.35% and 2.05%, respectively. Real GDP⁴⁶ projections stood at 2.15%, 2.20%, and 2.15% for 2026, 2027, and 2028, respectively. The forecast unemployment rate⁴⁷ stood at 4.35%, 4.35%, and 4.20% for 2026, 2027, and 2028. The Board revised projections of future target rates⁴⁸ to stand at 3.85% in 2026, with subsequent easing to bring the rates to 3.50% by the end of 2027 and 3.35% by the end of 2028. The Committee emphasized its long-term goals of maximum employment and 2% inflation, with future policy decisions dependent on incoming economic data.

FOMC Summary of Economic Projections				
Year	Real GDP	PCE	Unemployment	Fed Funds
2026	2.15%	3.60%	4.35%	3.85%
2027	2.20%	2.35%	4.35%	3.50%
2028	2.15%	2.05%	4.20%	3.35%

⁴⁵ Federal Reserve Bank of St. Louis, *FOMC Summary of Economic Projections for the Personal Consumption Expenditures Inflation Rate, Central Tendency, Midpoint [PCECTPICTM]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PCECTPICTM>, August 3, 2026.

⁴⁶ Federal Reserve Bank of St. Louis, *FOMC Summary of Economic Projections for the Growth Rate of Real Gross Domestic Product [GDPC1CTM]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/GDPC1CTM>, August 3, 2026.

⁴⁷ Federal Reserve Bank of St. Louis, *FOMC Summary of Economic Projections for the Civilian Unemployment Rate, Central Tendency, Midpoint [UNRATECTM]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UNRATECTM>, August 3, 2026.

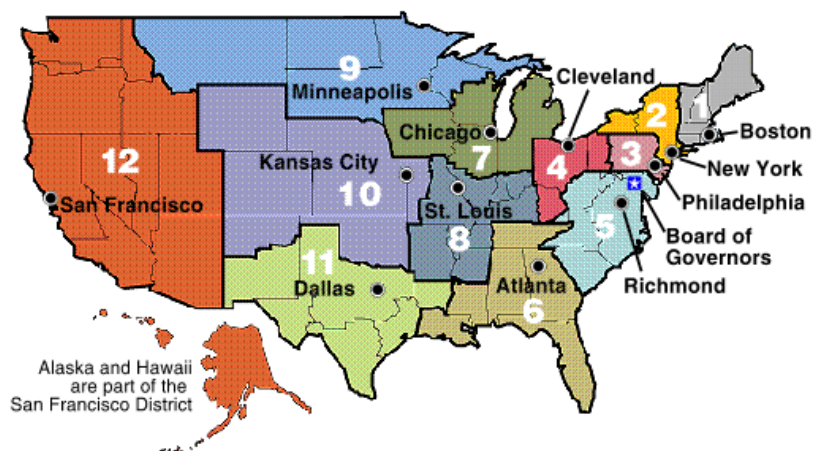
⁴⁸ U.S. Federal Open Market Committee and Federal Reserve Bank of St. Louis, *FOMC Summary of Economic Projections for the Fed Funds Rate, Range, Midpoint [FEDTARCTM]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/FEDTARCTM>, August 3, 2026.



Midwest Economy⁴⁹

Economic activity in the Seventh District increased modestly in late May and June, and contacts expected a slight increase in activity in the coming year.

Manufacturing demand rose moderately; employment rose modestly; consumer spending, business spending, and construction and real estate activity increased slightly; and nonbusiness contacts saw a small increase in economic activity. Prices rose moderately, wages were up modestly, and financial conditions tightened slightly. Farm income expectations for 2026 edged down.



Labor Markets

Employment rose modestly over the reporting period, and contacts expected a similar pace of hiring over the next 12 months. Overall, contacts characterized the labor market as stable. Across industries, including manufacturing, several contacts reported that they were planning to hire at rates similar to prior reporting periods. Some noted continued difficulty finding skilled workers, including a contact in banking who saw fewer applicants for open positions than a year ago. In contrast, there were a few contacts who reported cooler labor market conditions: A heavy machinery manufacturer said they were not having trouble hiring in part due to layoffs at other nearby firms, and a chemicals manufacturer indicated that they were downsizing. Wages grew modestly and benefits costs were up moderately.

Prices

Prices rose moderately overall in late May and June, and contacts expected prices to continue to rise moderately over the next 12 months. Producer prices rose moderately. Nonlabor input costs increased moderately on balance, and contacts tied many of these increases to the conflict in the Middle East, including for energy, shipping, and raw materials like chemicals and plastics. Consumer prices were up moderately. One retail industry analyst expected price growth pressures to ease over the rest of the year if energy prices and tariffs remain at or below current levels.

Consumer Spending

Consumer spending increased slightly during the reporting period. Several contacts noted that high energy prices were affecting buying decisions, with one contact seeing lower saving rates. Nonauto retail sales edged up. Contacts indicated that more generous retail promotions were boosting activity, in part due to the scheduling of Amazon Prime Days and competing discounts in June instead of July. Sales of consumer electronics rose, while spending on furniture decreased. Leisure and hospitality spending increased slightly. Dining at restaurants remained strong, but hotel stays declined. A contact at a large convention center reported decreased demand for social events. Light vehicle sales increased, nearly matching last year's level. Demand for hybrids was particularly strong across the District. Contacts reported rising prices for used vehicles due to increased demand and low inventories. Service and parts activity was strong, though some dealers said that customers were putting off some routine maintenance, like oil changes.

Business Spending

Business spending rose slightly on balance in late May and June. Capital expenditures ticked up, and expectations for spending over the coming year also increased. Contacts reported spending on new buildings, equipment, and software. Contacts that sell capital goods indicated that some clients were hesitant to move forward with orders due to uncertainty attributed to the conflict in the Middle East. Demand for truck transportation increased slightly

⁴⁹ Primary Source: Federal Reserve, Beige Book – July 15, 2026, “Summary of Commentary on Current Economic Conditions” Extracted wholly or largely verbatim and/or substantially paraphrased.



and rates increased amidst elevated fuel prices. A consultant for the trucking industry anticipated tight supply in the sector due to increasingly strict driver qualifications. Retail inventories were comfortable, stocks of new and used vehicles were low, and manufacturing inventories were a little high. Some contacts reported shortages of inputs, notably for electrical components.

Construction and Real Estate

Construction and real estate demand increased slightly overall over the reporting period. Residential construction activity edged down. Surveys of contractors and homebuilders indicated that quoting activity worsened, backlogs were weaker than normal, and May activity was slower than expected. Contacts reported that a growing share of renovation projects were for necessary repairs rather than additions. Residential real estate activity rose moderately, though one contact said that the increase was largely just making up for slower-than-usual activity earlier this year. Prices and rents were up slightly. Nonresidential construction activity was unchanged. Activity remained robust in the data center and electricity generation segments, while new construction in other segments was idiosyncratic. Commercial real estate activity was unchanged overall. Prices were up slightly while rents were unchanged.

Manufacturing

Manufacturing demand increased moderately in late May and June. Chemicals, plastics, and rubber production increased slightly. Primary metals wholesalers and manufacturers reported a slight increase in demand, driven by sales to the defense sector and data center builders. Auto industry demand was flat on balance, with one contact noting that supply problems for aluminum and certain components had held back production some. Heavy truck production increased slightly. The defense sector spurred a modest increase in fabricated metals production, enough to offset decreased demand from the auto industry. Machinery sales increased strongly across a variety of sectors, including to defense and data center builders.

Banking and Finance

Financial conditions tightened slightly over the reporting period. Bond values increased a bit, and both equity values and volatility remained flat overall. Business loan demand rose modestly over the reporting period, with a few contacts noting greater volumes for small businesses. In contrast, several contacts saw slower demand for multifamily development loans. Business loan quality was flat, rates increased slightly, and terms were unchanged overall. In the consumer sector, loan demand and quality were flat on net. Rates rose slightly, and terms were flat.

Agriculture

Expectations for 2026 District farm income deteriorated some in late May and June as crop prices faltered and most livestock prices were flat. Corn, soybean and wheat prices all declined. Egg and hog prices were flat overall, while cattle prices decreased some from elevated levels. Dairy prices were down on balance. Contacts noted that cheese production increased, in part because of rising demand for whey protein, a cheese biproduct. Corn and soybean crops were progressing well across most of the District. Production of new farm equipment slowed, spurring sales of used equipment and helping to reduce elevated used inventories. Contacts reported that farm equipment repair activity was much higher this year as a consequence of aging equipment fleets. Prices for fertilizer and fuel purchases dropped as transportation blockages eased in the Middle East, although it is not a major season for farm purchases of these items.

Community Conditions

Community, nonprofit, government, and other nonbusiness contacts reported slightly improving labor demand reflecting a small increase in economic activity. Furthermore, contacts in state government saw growth in revenue from income tax withholding. However, persistent uncertainty continued to be a drag on low- and moderate-income consumers and the organizations that serve them. Small business intermediary contacts reported that increased shipping costs were affecting the stability of very small businesses, even those that have been in business for several years. Social service providers said they had decreased their reliance on the federal government as funding levels and rules have changed. Instead, they have continued to turn to other strategies to meet community needs. Community contacts noted that low wage workers, many of whom cannot work from home, have been adversely affected by higher gas prices, making commuting more costly.