



Q2 2026

Economic Overview

Presented by Amwins & Prestige Economics



U.S. economic growth and job gains have continued while inflation remains elevated. There are also additional upside risks to inflation due to the recent rise in oil prices following the war with Iran and the associated disruption and damage to oil and gas infrastructure.

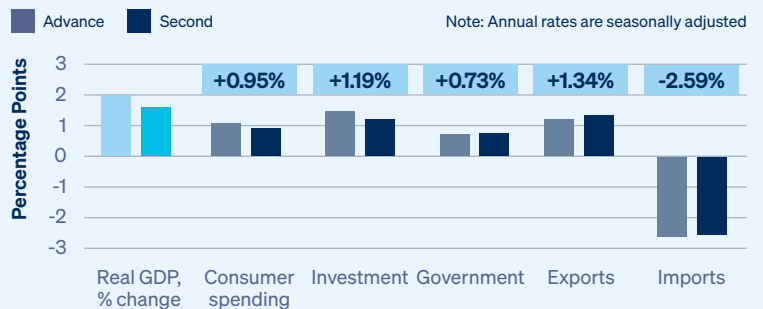
U.S. Real GDP expanded at a 1.6% annual rate in Q1 2026, according to the revised estimate, following weak growth of 0.5% in Q4 2025. Consumption and investment were the primary drivers of Q1 GDP growth. Government spending also contributed positively to GDP, while net exports detracted from growth. While consumption contributed 0.95 percentage points to Q1 2026 GDP growth, consumer spending remains the primary driver of the U.S. economy, accounting for more than 69.2% of GDP. This makes the labor market critical for economic growth. Unfortunately, nonfarm payroll growth has weakened, with payroll declines recorded in five of the past 11 months. Healthcare remains one of the primary sources of net payroll gains, reflecting ongoing secular demand for healthcare services. However, most cyclical sectors have experienced a slowing in net job creation.

On the upside, the unemployment rate remained low at 4.3% in May. Additionally, there were over 7.6 million job openings in April, while continuing jobless claims remained relatively low at approximately 1.8 million. These indicators suggest that labor market conditions, while softer, remain broadly healthy.

Year-on-year consumer inflation has accelerated in recent months following the outbreak of the conflict with Iran. In April, Total CPI accelerated to 3.8%, while Core CPI rose to 2.8%. Meanwhile, Total PCE increased to 3.8%, and Core PCE rose to 3.3%. All of these measures of consumer inflation are well above the Fed's 2% target, which appears likely to limit the Fed's ability to cut interest rates. With elevated year-on-year inflation rates, recent significant improvements in payroll gains, and other solid labor market data, **we no longer expect any Fed interest rate cuts in 2026. In fact, the Fed may even raise rates this year to dampen inflationary pressures.**

Q1 2026 U.S. Real GDP Components – Revised GDP

Contributions to percent change in Real GDP, 2026: Q1, Real GDP decreased 1.6%



Consumption at 69.2% of GDP Level

Sources: Bureau of Labor Statistics, Prestige Economics

Economic data and economic forecasts

	Quarterly Historical Data				Quarterly Forecasts				Annual Historical Data					Annual Forecasts				
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	26 Q2	26 Q3	26 Q4	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP (Year-over-Year)	2.0	2.1	2.3	2.0	2.6	1.9	0.9	1.1	2.6	-2.2	6.1	2.5	2.9	2.8	2.1	1.6	1.2	2.4
Real GDP (Quarter-over-Quarter)	-0.6	3.8	4.4	0.5	1.6	1.0	0.5	1.4										
Unemployment Rate	4.1	4.2	4.3	4.5	4.4	4.4	4.5	4.6	3.7	8.1	5.4	3.7	3.6	4.0	4.3	4.5	4.6	4.4
Consumer Price Index	2.7	2.4	2.9	2.7	2.7	3.8	3.7	4.1	1.8	1.3	4.7	8.0	4.1	3.0	2.6	3.6	2.6	2.2
Core Consumer Price Index	3.1	2.8	3.1	2.6	2.5	2.8	2.7	3.0	2.2	1.7	3.6	6.2	4.8	3.4	2.8	2.8	2.3	2.0
Fed Funds Rate (Upper Limit)	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	1.75	0.25	0.25	4.50	5.50	4.50	3.75	3.75	3.00	3.00

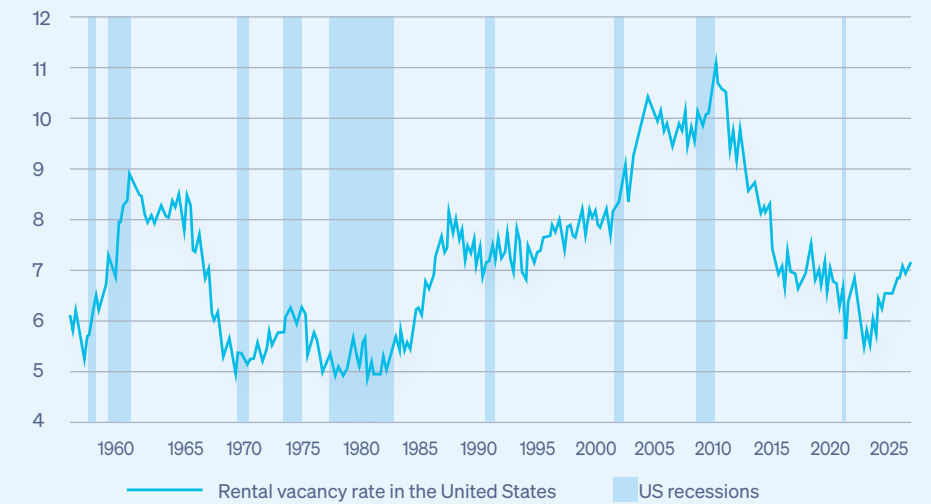
Sources: Federal Reserve, Bureau of Labor Statistics, Prestige Economics



The rental vacancy rate for Q1 2026 rose to 7.3% from 7.2% in Q4 2025.

Rental vacancy rates have been on the rise over the past few years. The annual vacancy rate in 2025 was 7.1%, which was the highest since 2017. The rise in vacancy rates suggests a softening for rental markets after a period of low vacancies in the post-pandemic housing boom. If rental vacancies rise further, rents are likely to come under additional pressure.

Rental Vacancies at 7.3% in Q1 2026



Source: US Census Bureau via FRED®

Housing overview

Relatively high interest rates continue to hold back the housing sector. Although there was a decline in average 30-year fixed mortgage rates to 6.11% in Q1 2026, rates have since risen back above 6.5%. Elevated mortgage rates and their recent acceleration could weigh on home sales and prices in upcoming reports. Additionally, the upside risks to consumer inflation from higher energy prices following the conflict with Iran could keep interest rates elevated for longer.

Total housing starts rose sharply in Q1 2026 to a seasonally adjusted annual rate of 1.413 million. This follows a weak pace of total housing starts in Q4 2025 of 1.323 million. Multifamily housing starts also rose in Q1 2026 to 449,000, which was significantly higher than the 380,000 seasonally adjusted annual rate in the prior quarter.

Building permits were less positive than housing starts, with total permits slowing in Q1 2026 to 1.432 million from 1.438 million in Q4 2025. Multifamily permits also slowed in Q1 2026 to 481,000 from 487,000 in Q4 2025. Total permits in 2025 averaged only 1.431 million, the lowest annual level since 2019. If mortgage rates remain elevated, permits and starts are likely to remain low this year.

New single-family home sales fell in Q1 2026 to a seasonally adjusted annual rate of 627,000, which was the slowest pace since Q4 2022. As sales stalled in Q1, the monthly inventory of new single-family homes for sale rose from 8.2 to 9.2 months, which is the highest level since Q1 2025.

Housing data

	Quarterly Historical Data					Annual Historical Data						
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	2019	2020	2021	2022	2023	2024	2025
Rental Vacancies Percentage Vacant	7.1%	7.0%	7.1%	7.2%	7.3%	6.8%	6.3%	6.1%	5.8%	6.5%	6.8%	7.1%
Total Housing Starts Thousands, seasonally adjusted annual rate	1397	1356	1347	1323	1413	1292	1394	1603	1550	1421	1370	1356
Housing Starts, 5 units or more Thousands, seasonally adjusted annual rate	363	394	444	380	449	390	381	462	530	460	337	395
Total Building Permits Thousands, seasonally adjusted annual rate	1467	1420	1397	1438	1432	1386	1479	1734	1685	1516	1474	1431
Building Permits, 5 Units or More Thousands, seasonally adjusted annual rate	434	465	462	487	481	480	443	562	656	540	441	462
New Single-Family Home Sales Thousands, Seasonally Adjusted Annual Rate	654	663	687	711	627	685	830	769	636	666	684	679
New Single-family home sales inventories Monthly supply	9.2	9.1	8.6	8.2	9.2	5.8	4.6	5.5	8.5	7.9	8.3	8.8

Sources: U.S. Census Bureau, Prestige Economics



Spending & cost overview

Personal spending was up in Q1 2026 by 5.5% year on year, which was a solid acceleration from 5.0% in Q4 2025. This improvement followed a slowing in 2025 personal spending growth to 5.3%, which was the slowest annual pace since 2020. Hopefully, the improvement in Q1 spending is the beginning of a more positive trend. However, there are risks that spending could slow since May consumer sentiment fell to record lows, largely due to the conflict with Iran and the associated inflationary impacts. Consumers are likely to spend, but the year-on-year pace in Q2 could slow.

Personal Income was up in Q1 2026 by 3.6% year on year, although this was the slowest quarterly pace of year-on-year growth since Q1 2022. The annual pace of personal income has slowed significantly over the past two years, falling in 2025 to 4.8%, which was the slowest annual pace since 2022.

Average hourly wages continued rising in Q1 2026 to \$37.26 per hour for all private sector workers. Despite the continued rise in absolute wages, there was a slowing in the year-on-year pace of wage growth, which decelerated to 3.6% year on year from 3.9% in Q4 2025. We expect average hourly wages in the private sector will likely exceed \$40 per hour by mid-2028, which is just two years away.

Construction materials costs (PPI) rose by 6.6% year on year in Q1 2026 after having risen only 4.8% year on year in year in the prior two quarters. Elevated energy costs and supply chain disruptions following the war with Iran are adding costs to the industry, which could compress construction project margins.

Construction spending slowed to an annualized \$2.18 trillion in Q1 2026. Nevertheless, construction spending was up 0.8% year on year in Q1 2026. Total construction spending in 2025 was at \$2.17 trillion, which was the second highest annual spending on record, following only 2024.

30-year fixed mortgage rates fell in Q1 2026 to 6.11%, which is the lowest quarterly average since Q3 2022. Unfortunately, mortgage rates have risen to around 6.5% since the end of Q1 2026, threatening to weigh on housing demand and prices in Q2 2026. Elevated inflation and higher fuel prices associated with the war in Iran are likely to delay significant declines in interest rates and may even justify Federal Reserve rate hikes later this year.



Spending and cost data

	Quarterly Historical Data					Annual Historical Data						
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	2019	2020	2021	2022	2023	2024	2025
Personal Spending Year-on-year percent change	5.7%	5.2%	5.4%	5.0%	5.5%	3.6%	-1.4%	13.3%	9.7%	6.5%	5.6%	5.3%
Personal Income Year-on-year percent change	5.1%	4.8%	5.0%	4.4%	3.6%	4.8%	6.9%	9.5%	3.0%	6.5%	5.6%	4.8%
Average Hourly Wages, Total Private US Dollars	\$35.96	\$36.25	\$36.60	\$36.96	\$37.26	\$28.00	\$29.36	\$30.61	\$32.26	\$33.70	\$35.06	\$36.44
Average Hourly Wages, Total Private Year-on-year percent change	4.1%	3.9%	3.9%	3.9%	3.6%	3.3%	4.9%	4.3%	5.4%	4.5%	4.0%	4.0%
Construction Spending Trillions, seasonally adjusted annual rate	\$2.16	\$2.15	\$2.17	\$2.19	\$2.18	\$1.39	\$1.50	\$1.65	\$1.90	\$2.07	\$2.19	\$2.17
Construction Spending Year-on-year percent change	-0.5%	-2.4%	-1.3%	0.0%	0.8%	4.2%	7.9%	10.2%	14.9%	9.1%	5.7%	-1.1%
30-Year Mortgage Fixed Rates Average percent	6.83%	6.79%	6.57%	6.23%	6.11%	3.94%	3.11%	2.96%	5.34%	6.81%	6.72%	6.60%
Construction Materials Costs (PPI) Year-on-year percent change	-1.3%	3.2%	4.8%	4.8%	6.6%	0.0%	1.5%	26.9%	12.6%	-2.9%	-1.0%	2.9%

Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics, Prestige Economics



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