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Q3 2026
Economic Overview

Presented by Amwins & Prestige Economics

U.S. economic growth remains positive, but payrolls have weakened while inflation remains elevated. There are also ongoing risks to inflation due to elevated oil prices following the war with Iran and the associated disruption and damage to oil and gas infrastructure. Elevated inflation rates and the record level of U.S. government debt at $40 trillion threaten to keep interest rates and mortgage rates higher for longer.

U.S. Real GDP expanded at a 1.5% annual rate in Q2 2026, according to the advance estimate, following growth of 2.1% in Q1 2026. Consumption and investment were the primary drivers of Q2 GDP growth. Consumption contributed 2.12 percentage points to Q2 2026 GDP growth; consumer spending remains the primary driver of the U.S. economy, accounting for more than 69.3% of GDP. This makes the labor market critical for economic growth.

Unfortunately, nonfarm payroll growth has weakened, with payroll declines recorded in six of the past 14 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.

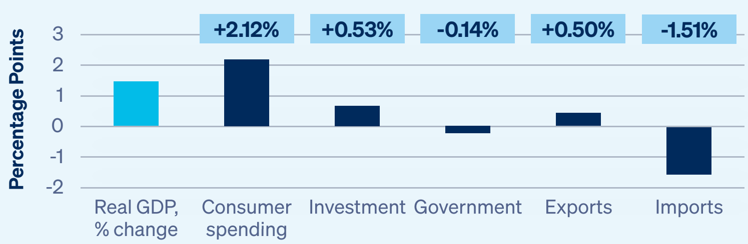
On the upside, the unemployment rate remained low at 4.1% in July. Additionally, there were nearly 7.4 million job openings in June, while continuing jobless claims remained relatively low around 1.8 million. These indicators suggest that labor market conditions, while softer, remain generally healthy.

Year-on-year consumer inflation is elevated following the outbreak of the conflict with Iran. Consumer inflation was elevated in July, with Total CPI at 3.4% year on year and Core CPI at 2.5%. Both measures remain above levels consistent with the Fed's 2% longer-run inflation objective. Due to elevated inflation rates, the Fed would normally have the license to raise its policy rates. However, the pace of payroll gains has slowed significantly — enough to normally warrant an interest rate cut. This presents a conundrum for the Fed. If inflation remains persistently elevated, the Fed could raise rates later this year. However, if the labor market remains soft — or weakens sharply — the Fed may consider leaving rates unchanged or even cutting rates.

Q2 2026 U.S. Real GDP Components – Advance Estimate

Contributions to percent change in Real GDP, 2026: Q2, Real GDP increased 1.5%

Note: Annual rates are seasonally adjusted



Consumption at 69.3% of GDP Level

Note: Imports are a subtraction in the calculation of GDP. An increase in imports results in a negative contribution to GDP, and a decrease in imports results in a positive contribution to GDP.
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	2.7	2.1	1.3	1.5	2.6	-2.2	6.1	2.5	2.9	2.8	2.1	1.9	1.7	2.3
Real GDP (Quarter-over-Quarter)	-0.6	3.8	4.4	0.5	2.1	1.5	1.3	1.2										
Unemployment Rate	4.1	4.2	4.3	4.5	4.4	4.3	4.2	4.3	3.7	8.1	5.4	3.7	3.6	4.0	4.3	4.3	4.5	4.4
Consumer Price Index	2.7	2.4	2.9	2.7	2.7	3.9	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	2.7	2.6	2.9	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	4.00	1.75	0.25	0.25	4.50	5.50	4.50	3.75	4.00	3.75	3.50

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

Housing overview

Relatively high interest rates continue to hold back the housing sector. There was a rise in average 30-year fixed mortgage rates to 6.41% in Q2 2026, and rates have recently risen to 6.65%. Elevated mortgage rates and their recent increase could continue to weigh on housing data in upcoming reports. Additionally, the upside risks to consumer inflation from higher energy prices following the conflict with Iran threatens to keep interest rates elevated for longer. If mortgage rates remain elevated, housing is likely to remain soft.

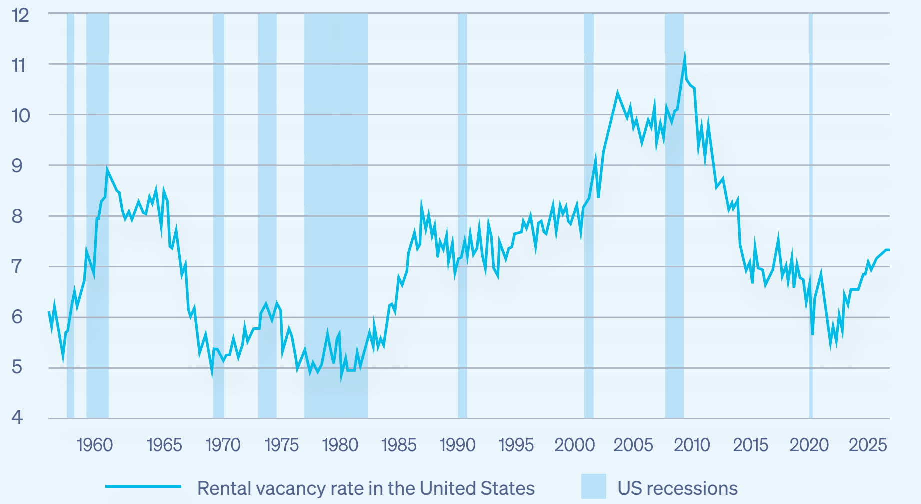
Total housing starts fell sharply in Q2 2026 to a seasonally adjusted annual rate of 1.337 million. This series has been weak recently at only 1.356 million for all of 2025, which was the lowest annual rate since 2019. Multifamily housing starts also fell in Q2 2026 to 425,000, which was significantly lower than the 455,000 seasonally adjusted annual rate in the prior quarter.

Building permits also slowed in Q2 2026 to 1.402 million from 1.432 million in the prior quarter. Multifamily permits also slowed in Q2 2026 to 469,000 from 481,000 in Q1 2026. Total permits in 2025 averaged only 1.431 million, the lowest annual level since 2019.

New single-family home sales rose in Q2 2026 to a seasonally adjusted annual rate of 631,000, from 622,000 in Q1 2026. The quarterly average of monthly inventory of new single-family homes for sale fell from 9.3 to 9.2 months in Q2 2026.

The rental vacancy rate for Q2 2026 was unchanged at 7.3% from Q1 2026. 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 Q2 2026



Source: US Census Bureau via FRED®

Housing data

	Quarterly Historical Data						Annual Historical Data						
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	26 Q2	2019	2020	2021	2022	2023	2024	2025
Rental Vacancies Percentage Vacant	7.1%	7.0%	7.1%	7.2%	7.3%	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	1418	1337	1292	1394	1603	1550	1421	1370	1356
Housing Starts, 5 units or more Thousands, Seasonally Adjusted Annual Rate	363	394	444	380	455	425	390	381	462	530	460	337	395
Total Building Permits Thousands, Seasonally Adjusted Annual Rate	1467	1420	1397	1438	1432	1402	1386	1479	1734	1685	1516	1474	1431
Building Permits, 5 Units or More Thousands, Seasonally Adjusted Annual Rate	434	465	462	487	481	469	480	443	562	656	540	441	462
New Single-Family Home Sales Thousands, Seasonally Adjusted Annual Rate	654	663	687	711	622	631	685	830	769	636	666	684	679
New Single-family home sales inventories Monthly Supply	9.2	9.1	8.6	8.2	9.3	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 Q2 2026 by 6.3% year on year, which was a deceleration from 6.6% in Q1 2026. This deceleration also accompanied a slowing in personal income in Q2 2026. There are risks that spending could slow further due to the conflict with Iran and the associated inflationary impacts, including elevated oil prices.

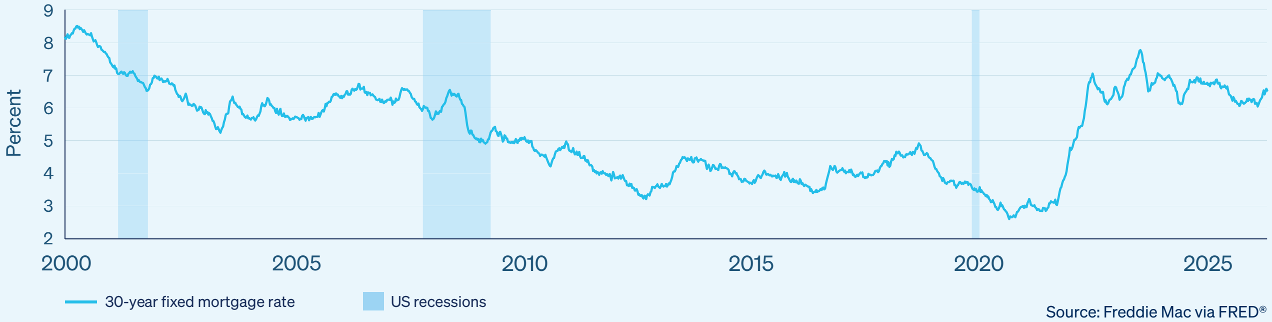
Personal income was up in Q2 2026 by 3.5% year on year, which slowed from 3.6% in Q1 2026. This was the slowest quarterly pace of year-on-year growth since Q1 2022. The annual pace of personal income has slowed significantly over the past two years, falling in 2025 to 4.8%, which was the slowest annual pace since 2022.

Average hourly wages continued rising in Q2 2026 to $37.50 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 3.4% year on year from 3.6% in Q1 2026. We expect average hourly wages in the private sector will likely exceed $40 per hour by mid–2028, which is less than two years away.

Construction materials costs (PPI) rose by 7.1% year on year in Q2 2026 as prices accelerate in the wake of the conflict with Iran. Elevated energy costs and supply chain disruptions are adding costs to the industry, which threaten to compress construction project margins. This series further accelerated in July 2026 to show prices are up 10.5% from July 2025.

Construction spending slowed to an annualized $2.17 trillion in Q2 2026. Moreover, construction spending was down –3.6% year on year in Q2 2026. This is the fourth consecutive quarter of declines, with an acceleration in the pace of year-on-year declines. Without lower interest rates, this data indicates that the housing sector could continue to be under pressure.

30-Year Fixed Mortgage Rate at 6.65% in August 2026



Source: Freddie Mac via FRED®

Spending and cost data

	Quarterly Historical Data						Annual Historical Data						
	25 Q1	25 Q2	25 Q3	25 Q4	26 Q1	26 Q2	2019	2020	2021	2022	2023	2024	2025
Personal Spending Year-on-Year Percent Change	5.0%	5.3%	5.5%	5.7%	6.6%	6.3%	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%	3.5%	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	$37.50	$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%	3.4%	3.3%	4.9%	4.3%	5.4%	4.5%	4.0%	4.0%
Construction Spending Trillions, Seasonally Adjusted Annual Rate	$2.26	$2.25	$2.24	$2.23	$2.19	$2.17	$1.39	$1.50	$1.65	$1.90	$2.07	$2.24	$2.24
Construction Spending Year-on-Year Percent Change	2.4%	0.8%	-0.3%	-1.6%	-2.9%	-3.6%	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%	6.41%	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%	7.1%	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

Insights provided by:

Jason Schenker
President of Prestige Economics
4412 City Park Road #4 Austin, Texas 78730
www.prestigeeconomics.com
www.jasonschenker.com

CONTACT

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