

Economic Outlook

FEBRUARY 2026

Growth Slows in 2025; Beyond Business Report Supports 2026 GDP Forecast

HIGHLIGHTS

- The U.S. economy grew in 2025 at its slowest pace since 2020.
- Personal consumption expenditures inflation was unchanged at 2.6% in 2025.
- Findings from the 2026 Beyond Business Report support our expectation for stronger real GDP growth this year.

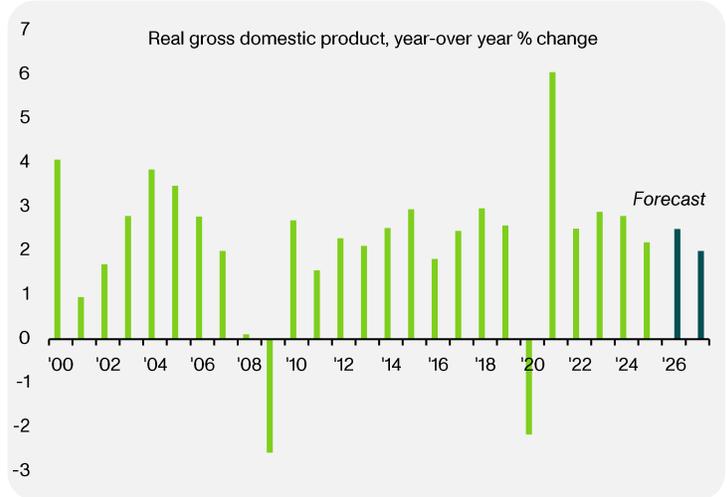
U.S. economic growth slowed in 2025 as tariffs and a six-week federal government shutdown weighed on activity. Real GDP rose 2.2% from the 2024 annual level to the 2025 annual level, down from 2.8% in 2024. It was the weakest year for growth since 2020, when the pandemic hit the U.S. economy. Consumer spending and investment remained the primary drivers of growth. Household spending - which accounts for about two-thirds of real GDP - increased 2.7% last year, broadly in line with the prior year.

Although output expanded near the economy's potential, labor market momentum faded. Nonfarm payrolls rose by 181,000 in 2025, averaging just 15,000 per month - the weakest year for job growth outside of recessions since 2001. The unemployment rate edged up from 4.0% in January to 4.4% in December and has held between 4.3% and 4.5% since July.

Tariff-related inflation pressures have been more muted than anticipated. The personal consumption expenditures (PCE) deflator - the Fed's preferred inflation gauge - held steady at a 2.6% annual average rate in 2025. Goods inflation picked up after the implementation of tariffs last year, even as services inflation eased alongside labor market cooling.

Overall, economic fundamentals remain solid in early 2026, and the Chief Investment Office (CIO) expects growth to strengthen this year relative to 2025. Our outlook is supported by Huntington Bank's annual Beyond Business Report. Results from the Fall 2025 survey indicate firms entered 2026 with

FIGURE 1. GDP
Economic Growth Slowed Last Year

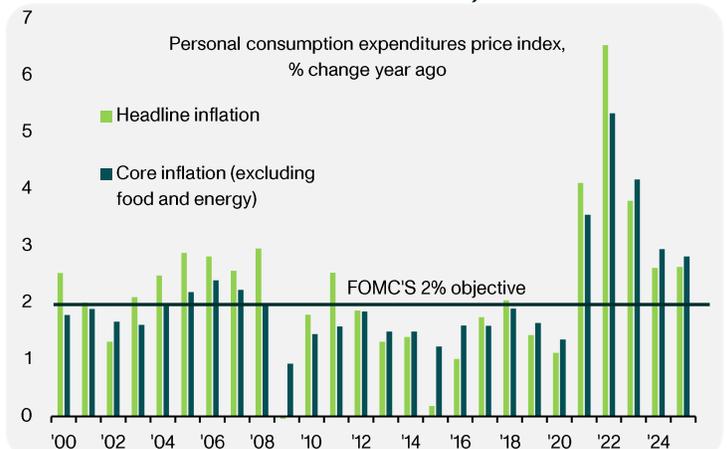


Source: Bureau of Economic Analysis

improved confidence compared to a year earlier. Notably, roughly three-fifths of large business owners expressed optimism about the U.S. economy, up from two-fifths the prior year.

According to the survey results, larger companies were the most optimistic about their overall financial condition. In addition, about two-fifths of businesses surveyed expect to grow or expand over the next 12 to 18 months, consistent with the share reported a year earlier. Despite the improved sentiment, businesses continue to cite key challenges.

FIGURE 2. INFLATION
Inflation Remains Above Fed's Objective



Source: Bureau of Economic Analysis

Smaller firms pointed to the rising cost of doing business while large organizations identified cybersecurity risk as their primary concern. In the construction sector, half of respondents cited higher operating costs as their top issue.

The Supreme Court ruling on the use of the International Emergency Economic Powers Act (IEEPA) to impose tariff policy is unlikely to materially alter the outlook for the U.S. economy or Fed policy. In response to the ruling, a 10% global tariff was authorized under Section 122 of the Trade Act of 1974. According to the Yale Budget Lab, considering the new tariffs, the effective tariff rate stands at roughly 13%, down from 17% prior to the Court's decision.

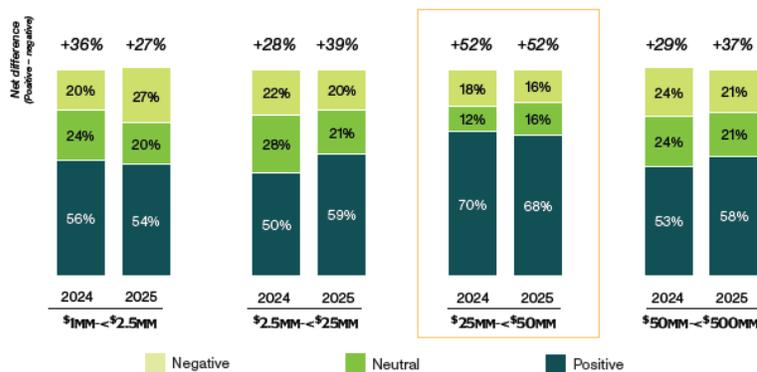
The lower effective tariff rate slightly improves the inflation outlook, as it reduces the duration of the tariff pass-through to core goods prices. While the reduced effective tariff rate could provide a modest lift to economic activity, increased trade policy

uncertainty is likely to offset much of that benefit. With PCE inflation above the Fed's target and the labor market stabilizing, the Fed is likely to continue its "wait-and-see" approach in the near term.

The CIO's baseline forecast calls for real GDP growth of around 2.5% in 2026. The U.S. labor market is expected to stabilize as prior rate cuts continue to filter through the economy. Inflation should moderate, supported by productivity gains, easing shelter inflation and diminishing tariff-related price pressures.

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FIGURE 3. BEYOND BUSINESS SURVEY
Business Owners Are More Optimistic For 2026



Source: Huntington Bank's 2026 Beyond Business Report

*Forecast

Historical data sources: Federal Reserve, BLS, BEA and Bloomberg

FIGURE 4: BASELINE ECONOMIC OUTLOOK

	2021	2022	2023	2024	2025	2026*	2027*
<i>Real GDP Annual Growth Rates, 2017 Chained Prices</i>							
Pers. Consumption Expenditures	8.8	3.0	2.5	2.8	2.7	3.3	2.0
Government Expenditures	-0.3	-1.1	3.9	3.4	1.2	0.9	1.5
Private Investment	8.8	6.0	0.1	4.0	2.0	3.0	2.5
Exports	6.5	7.5	2.8	3.2	1.7	1.2	2.0
Imports	14.7	8.6	-1.2	5.4	2.7	2.0	2.5
Total Real GDP	6.1	2.5	2.9	2.8	2.2	2.5	2.0
<i>CPI (1982-1984=100), % Change Annualized</i>							
CPI (1982-1984=100), % Change Annualized	4.7	8.0	4.1	3.0	2.7	2.6	2.5
<i>Core CPI (1982-1984 = 100), % Change Annualized</i>							
Core CPI (1982-1984 = 100), % Change Annualized	3.6	6.2	4.8	3.4	2.7	2.5	2.3
<i>PCE Price Index (2017=100), % Changed Annualized</i>							
PCE Price Index (2017=100), % Changed Annualized	4.2	6.5	3.8	2.5	2.9	2.7	2.5
<i>Core PCE Price Index (2017=100), % Change Annualized</i>							
Core PCE Price Index (2017=100), % Change Annualized	3.6	5.2	4.1	2.8	3.0	2.8	2.4
Crude Oil WTI, (\$/barrel)	\$68	\$95	\$78	\$76	\$65	\$65	\$60
Effective Federal Funds Rate, % (Average)	0.08	1.68	5.02	5.14	4.21	3.27	3.27
10-Yr. Treasury Rate, % (Average)	1.51	3.88	3.88	4.21	4.30	4.10	4.05
30-Yr. Fixed Rate Mortgage, %	3.27	6.66	6.99	6.72	6.60	6.20	6.00
Industrial Production (YoY%)	4.9	3.4	0.2	0.2	1.2	2.5	2.0
Payroll Jobs, Average Monthly Difference, Thousands	606	399	225	168	15	60	70
Unemployment Rate, Annual Average	5.4	3.6	3.6	4.0	4.3	4.4	4.3
DXY Dollar Index	95.7	103.5	101.3	104.2	100.8	98.0	96.0

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