

Economic Outlook

JUNE 2026

Midyear 2026: Fed holds steady and leans hawkish as U.S. economy remains solid

HIGHLIGHTS

- The Federal Reserve held interest rates steady in June and signaled rate hikes in 2026.
- Inflation accelerated in May to its fastest pace since 2023, driven by higher energy costs.
- The U.S. labor market has improved in recent months with strong job growth and wider job breadth.
- Resilient consumer spending and a manufacturing rebound are supporting economic growth as of mid-2026.

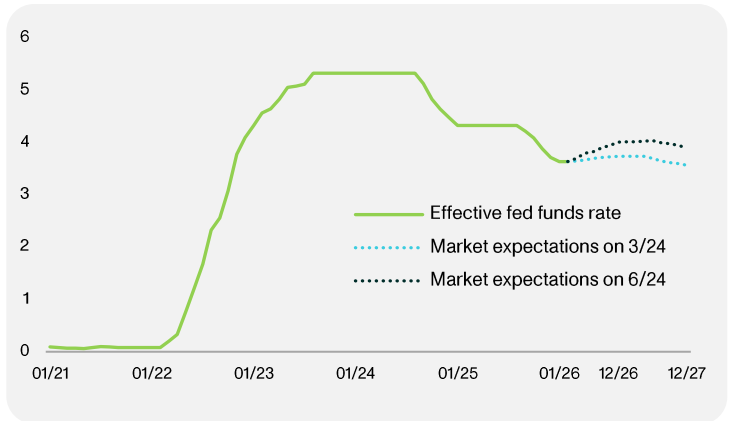
As widely expected, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged in a range of 3.50% to 3.75% at its June meeting, marking the fourth consecutive meeting without a policy change. Notably, the decision was unanimous — the first such vote since June 2025.

The June FOMC meeting struck a more hawkish tone than the March meeting. The median FOMC participant now expects one rate hike before the end of 2026, compared with one rate cut projected in March. In total, nine participants anticipate at least one rate hike by year-end 2026, eight expect rates to remain unchanged and only one foresees a rate cut.

The shift in the Fed’s outlook reflects a changing inflation environment. Consumer price index (CPI) inflation accelerated in May to its fastest pace since 2023, driven by higher energy costs. Additional inflationary pressures have emerged from AI-related investment demand and the pass-through of tariffs to consumer prices.

Services inflation has also reaccelerated in 2026 after moderating last year. “Supercore” services inflation – services excluding food, energy and housing rose to 3.5% in May, its highest rate since August 2025, reflecting continued wage pressures from a still-tight labor market. “Supercore” services inflation has now increased for five consecutive months.

FIGURE 1. MARKETS ARE PRICING A “HIGHER-FOR-LONGER” FED

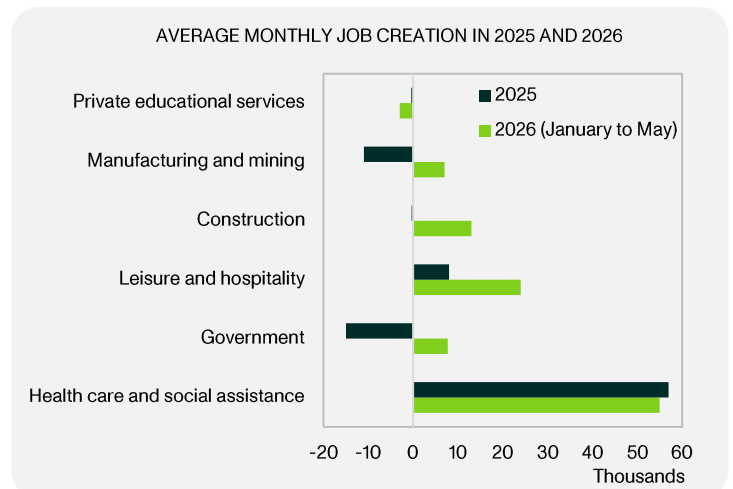


Source: Bloomberg
Date: 6/24/26

Meanwhile, labor market conditions have improved. Payroll growth has exceeded expectations over the past three months, averaging almost 200,000, a notable improvement from fewer than 10,000 jobs per month in 2025. Additionally, the unemployment rate has remained steady at 4.3% for three consecutive months.

Job market breadth has also widened this year. Employment gains have expanded beyond healthcare and leisure and hospitality to include manufacturing, construction and government, signaling a healthier pace of job growth.

FIGURE 2. GREATER JOB BREADTH IN 2026



Source: BLS
Date: 6/23/26

With inflation pressures elevated, AI-driven capital spending supporting demand, and labor market conditions stabilizing, the likelihood of a Fed rate hike in 2026 has increased. While the Huntington Chief Investment Office’s baseline expectation is for the FOMC to leave rates unchanged through the year-end, the balance of risks has shifted toward additional tightening.

Overall, the U.S. economy enters the second half of 2026 on solid footing. Consumer spending, which accounts for about two-thirds of the economy, remains resilient, supported by tax refunds, rising household wealth and a stable labor market. Manufacturing activity has also strengthened, expanding for five consecutive months amid robust AI-related investment and inventory accumulation.

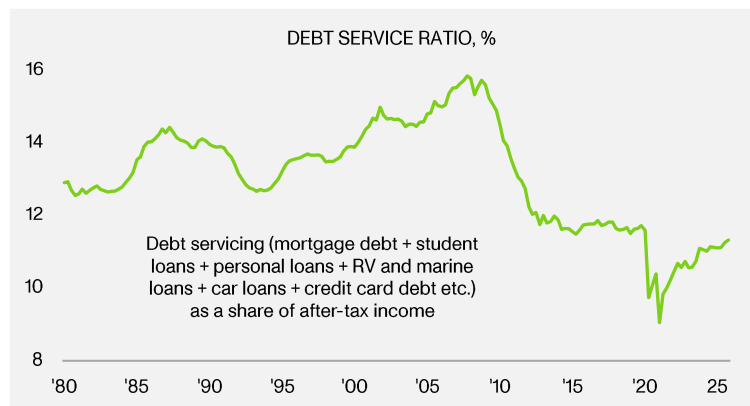
Looking ahead, the economic expansion is expected to continue into 2027. Consumers should benefit from a stable labor market

and healthy household balance sheets. However, these positives are tempered by subdued confidence and expectations that interest rates will remain higher for longer.

Massive AI investments and data center infrastructure should also support business investment. Declining crude oil prices could provide an additional tailwind for both consumers and businesses in the second half of 2026.

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FIGURE 3. CONSUMER DEBT BURDENS ARE MANAGEABLE



Source: Federal Reserve
Date: 6/24/26

FIGURE 4. BASELINE ECONOMIC OUTLOOK

Indicator	2026		2027	
	Consensus View	Huntington View	Consensus View	Huntington View
Real GDP Growth	2.1%	2.0%-2.5%	2.0%	2.0%-2.5%
Unemployment Rate (Average)	4.4%	4.5%	4.3%	4.4%
Nonfarm Payrolls (Average)	61,000	50,000 to 100,000	71,000	50,000 to 100,000
PCE Inflation (YoY)	3.6%	3.0% to 3.5%	2.4%	2.5% to 3.0%
Fed Funds Rate	0 to 1 hike	0 to 1 hike	0 to 1 hike	0 to 1 hike

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