

Economic Outlook

MARCH 2026

U.S. and Iran Conflict – Economic Impacts

HIGHLIGHTS

- The U.S. economy entered 2026 with solid growth momentum.
- The potential economic impact of the U.S.-Iran conflict will occur primarily through higher energy prices.
- The U.S. economy is more insulated from global energy price shocks than in prior decades.
- Huntington Bank Chief Investment Office expects continued economic growth through 2026.

Real GDP growth in 2025 was near the U.S. economy’s potential, supported primarily by consumer spending and investment. While growth was solid last year, the labor market showed signs of losing momentum. The U.S. economy remains healthy in early 2026, although risks to the outlook have increased in recent weeks due to the U.S.-Iran conflict.

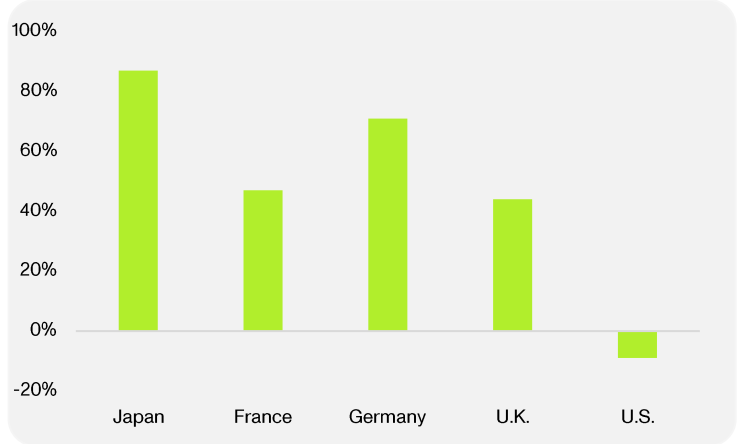
How Could the U.S.-Iran Conflict Affect the U.S. Economy?

The U.S.-Iran conflict has heightened concerns that a persistent increase in energy prices will reignite inflation and potentially weigh on growth. Brent crude oil prices jumped nearly 50% from February 27 to March 18, reaching \$107 per barrel. The increase followed coordinated military strikes by the U.S. and Israel against Iran.

While the ultimate implications for the economy remain uncertain, the U.S. economy is more insulated from an external oil price shock in 2026 than in prior decades. The U.S. is the world’s largest producer and a net exporter of crude oil. In addition, household spending on energy goods and services, as a share of consumer spending, is low on a historical basis. On the industrial side of the economy, sustained high energy prices may spur investment in oil and gas drilling.

The U.S.-Iran conflict could impact prices in several ways: the energy price shock may raise business costs, which could then be passed on to consumers; higher energy prices and concerns about the conflict could drive up inflation expectations, reinforcing actual inflation; and supply

FIGURE 1. ENERGY IMPORTS AS A SHARE OF ENERGY USE

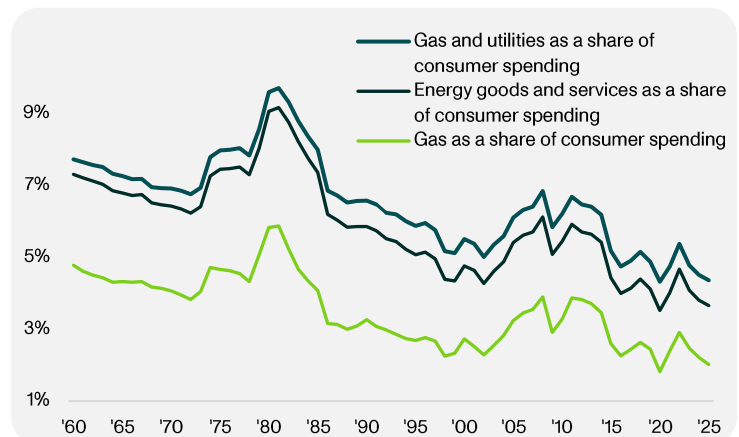


Source: World Bank
Date: 3/12/26

disruptions from the conflict could lead to higher input costs and reduced supply, placing upward pressure on the price of goods.

Another transmission mechanism through which the conflict could affect the U.S. economy is the recent increase in long-term bond yields. The U.S. 10-year Treasury yield rose by around 30 basis points from February 27 to March 18, as inflation concerns are causing investors to demand a higher yield on 10-year Treasuries. Elevated long-term yields could weigh on the U.S. economy by increasing borrowing costs for

FIGURE 2. ENERGY-RELATED CONSUMER SPENDING



Source: Bureau of Economic Analysis
Date: 3/12/26

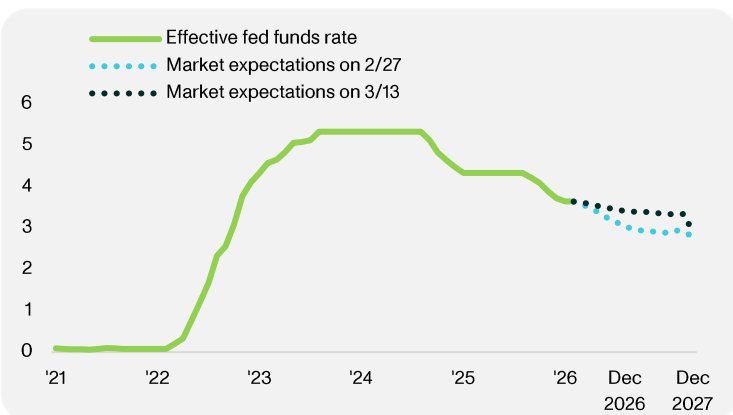
households and businesses.

A market correction stemming from the conflict could also weigh on consumer spending. Rising asset values in recent years have supported household balance sheets and helped sustained resilient consumption, even with softer labor market conditions. An extended conflict could create negative wealth effects and dampen consumer spending growth.

How Did the Federal Reserve Respond?

The Federal Open Market Committee (FOMC) kept the federal funds rate unchanged, at a range between 3.5% and 3.75%, at the conclusion of its two-day meeting in March. Policymakers upgraded their growth forecasts for 2026 and 2027, while downgrading their inflation forecasts for the same period. The FOMC continues to balance the risks to both sides of its mandate, as inflation concerns rise even as the labor market cools. The FOMC's forecast for the neutral federal funds rate, the short-term interest rate that is neither stimulative nor restrictive, was revised slightly higher to 3.1% from 3.0% in December.

FIGURE 3. CHANGING MARKET FED RATE EXPECTATIONS



Source: Bloomberg
Date: 3/12/26

What Do We Expect in 2026?

While the risks to the outlook have increased in recent weeks, several tailwinds should keep the economic expansion intact through 2026. A post government shutdown rebound, and larger tax refunds should support the economy this year. Also, more accommodative fiscal and monetary policies will be a boost to households and businesses. Continued AI-related investment should also be positive for the economy this year.

Our 2026 baseline expectation calls for GDP growth in the 2.0%-2.5% range and modest payroll gains of 0-50,000 per month. Slower labor force growth – driven by reduced immigration and aging demographics – has lowered breakeven job creation. The unemployment rate is expected to average 4.5%. Risks to the outlook are significant considering recent geopolitical developments.

We continue to expect one to two Fed rate cuts by the end of 2026, with the first cut likely later this year. If the conflict results in sustained energy price pressures, the Federal Reserve may hold the federal funds rate at its current range throughout the year. A more prolonged and severe escalation could prompt a rate hike, although this is not our baseline expectation.

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FIGURE 4: BASELINE ECONOMIC OUTLOOK

Indicator	2026		2027	
	Consensus View	Huntington View	Consensus View	Huntington View
Real GDP Growth	2.5%	2.0%-2.5%	2.0%	2.0%-2.5%
Unemployment Rate (Average)	4.3%	4.5%	4.4%	4.4%
Nonfarm Payrolls (Average)	69,000	0 to 50,000	80,000	0 to 50,000
PCE Inflation (YoY)	2.6%	2.5% to 3.0%	2.2%	2.5% to 3.0%
Fed Funds Rate	No cuts	1 to 2 cuts	2 to 3 cuts	1 to 2 cuts

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