Economic Update 2026

Scott Baier

Clemson University

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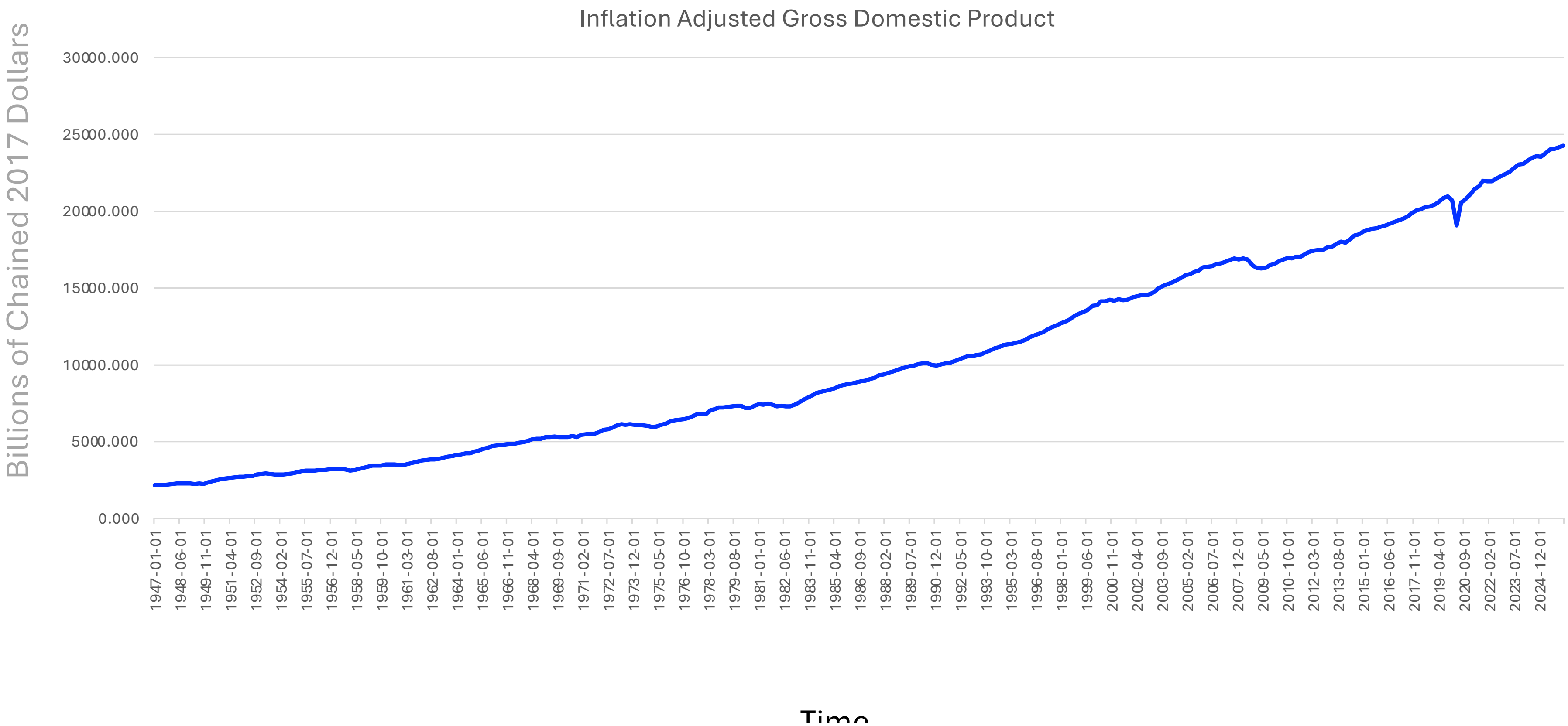
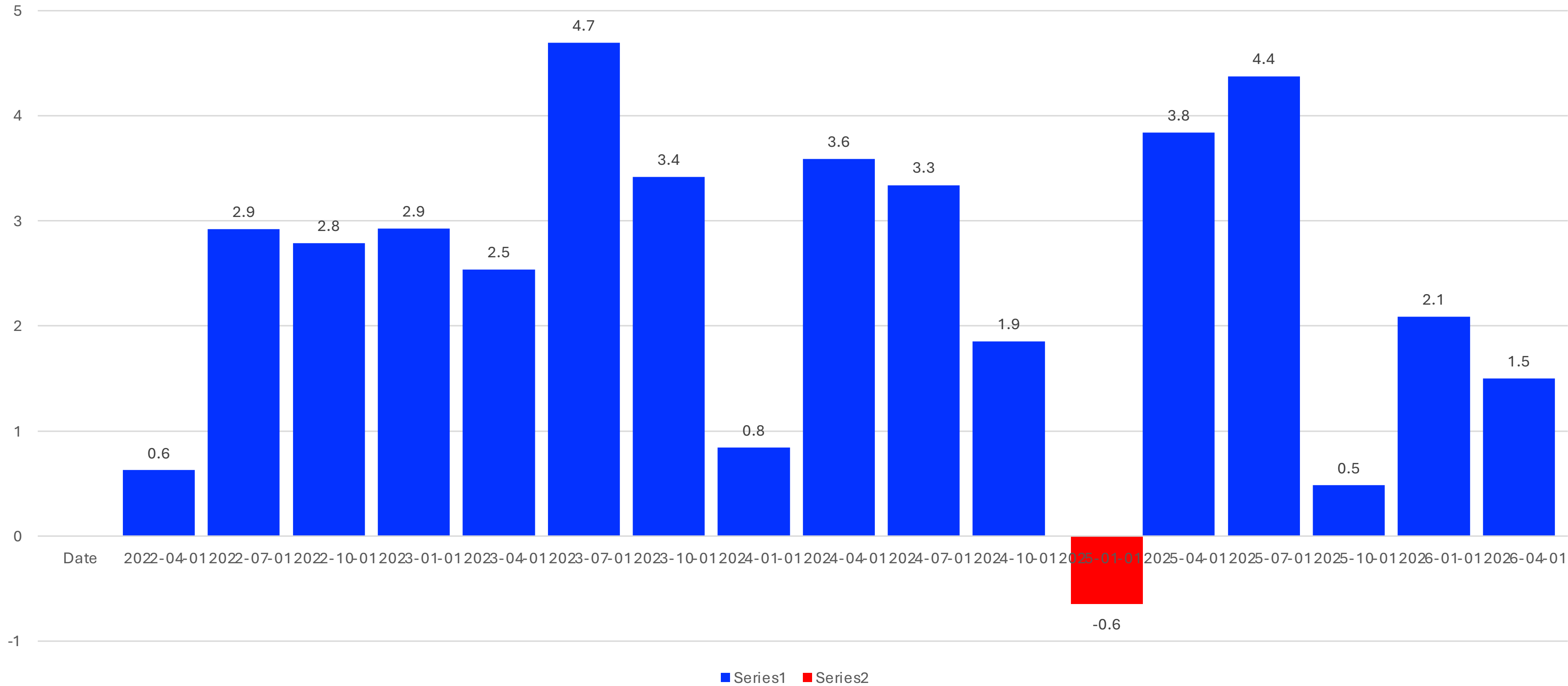
US Economic Overview

- The 2026 economy is defined by a Fed caught between sticky inflation, relatively low real GDP growth, and a cooling labor market, with AI productivity as the wild card
- Real GDP growth was 1.5% in 2026:Q2 following the 2.1% overall growth in 2026:Q1.
- Job growth is showing signs of weakening over the last 3 months the economy added a little 60k jobs per month so far in 2026 the economy added a total of 426k jobs.
- The conflict with Iran and elevated oil prices may act as a drag on the economy, raising gas prices, and putting upward pressure on inflation
- The Fed's preferred inflation gauge (headline PCE) stood at **3.7%**, with core PCE at **3.3%** — meaningfully above the Fed's 2% target.
- Fed voted 9-3 to hold target interest rate to 3.5% to 3.75%

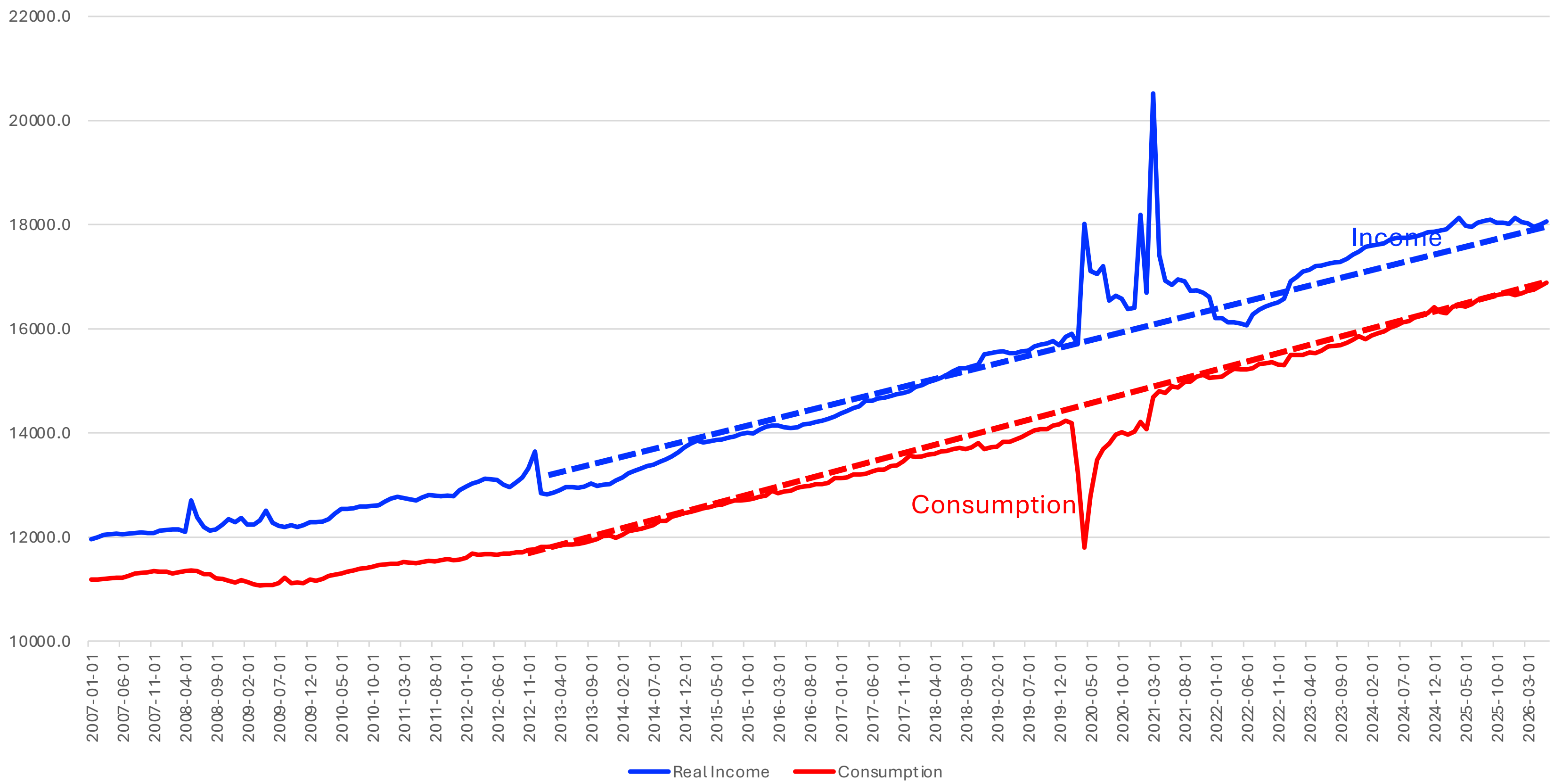
Real GDP: 1947:Q1 – 2026:Q2



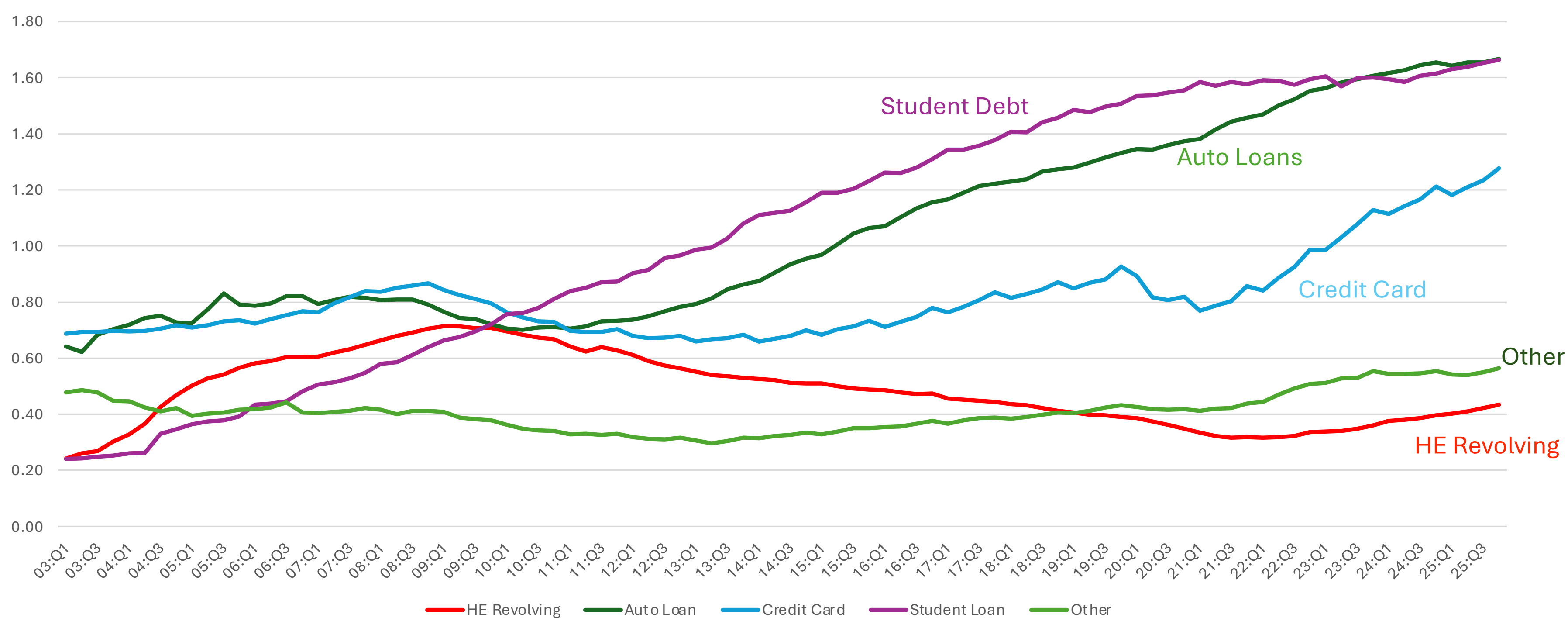
Quarterly GDP Growth



Consumption and Real Disposable Income



Household Debt



Consumption Spending looks uneven

Source: NY Fed

Consumption Forecast

- It looks lime high-income consumers are helping to carry the economy while lower-income households are stressed, and that bifurcation is the key risk. Evidence?
- Consumption growth has become ‘more’ dependent on higher-income households than in earlier stages of the recovery.
  - Lower income households have depleted excess saving from stimulus by 2023.
  - Recent credit data show rising delinquency rates among lower-income borrowers and increased use of revolving credit.
  - Spending growth has been stronger in travel, restaurants, high-end services and durable goods.
- While consumption, in the aggregate looks good, there are concerns. Overall, consumption becomes more interest rate sensitive, and more sensitive to wealth corrections, asset prices and credit conditions when high-income consumers are the drivers. Real wage gains for middle-income and lower income households would help support that consumption.

Consumption & the Affordability Crisis

- What is driving it?
- The 2021–2023 inflation surge raised the overall price level by roughly **20-25%** — and that level does not come back down under normal policy.
- Slower inflation (disinflation) means prices are *rising more slowly*, not falling — consumers feel this as a permanent loss of purchasing power.
- Housing is the dominant driver: a decade of underbuilding, restrictive zoning, and now elevated mortgage rates have created a structural shortage that monetary policy cannot fix

The Affordability Crisis

- What can policy makers do?
- Supply shocks — eggs, oranges, petroleum — are temporary relative price changes that self-correct as supply normalizes; these are *not* part of the affordability crisis
- Promising to *lower* prices from demand-driven inflation is either economically illiterate or deliberately misleading .
- Addressing housing affordability requires supply-side reform: zoning, permitting, and construction — not Fed rate cuts or executive orders on prices

Rents Fell in Cities That Built More

Cities that built more new apartments in recent years largely saw rents plummet. Cities that built less did not.

Market	New unit growth (5yr. avg.)	Rent (% change since max)
Austin, TX	6.8%	-15.2%
Nashville, TN	6.3	-5.6
Charlotte, NC	6.3	-5.1
Salt Lake City, UT	5.7	-5.3
Jacksonville, FL	5.6	-6.9
Raleigh, NC	5.5	-7.9
Orlando, FL	5.5	-6.0
Phoenix, AZ	4.9	-9.0
Miami, FL	4.5	-0.7
Denver, CO	4.3	-8.5
US average	**2.8**	**-1.6**
New York, NY	2.0	-0.4
San Diego, CA	1.8	-1.1
Chicago, IL	1.8	-0.7
Pittsburgh, PA	1.6	-0.9
Baltimore, MD	1.5	-1.0
Memphis, TN	1.5	-2.1

South Carolina and The Affordability Crisis

- SC home prices are up roughly 60% above pre-COVID levels — the permanence of that price shock mirrors the national inflation story: disinflation means prices rise more slowly, not that they fall back.
- South Carolina has fallen out of the top 10 most affordable states for homebuyers — Redfin ranked it 26th in its 2025 roundup.
- The median home sale price in South Carolina was $398,000 in March 2026, up 2.3% year-over-year, with the typical home sitting on the market for 76 days.
- Greenville's median sale price is about $525,000, up just 0.3% year over year. But price per square foot climbed 13.5% in the same period — buyers are paying similar money for noticeably less house.

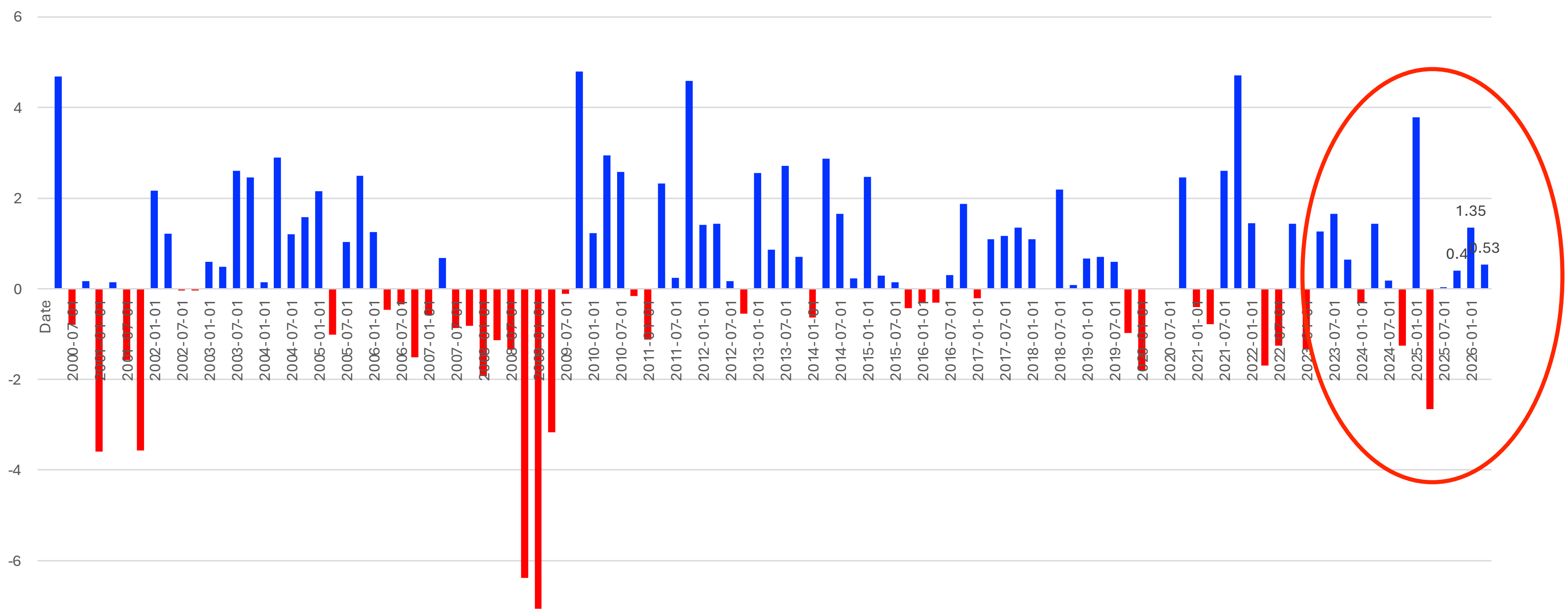
South Carolina and the Affordability Crisis

- South Carolina authorized more than 770 new private housing permits per 100,000 residents from June 2025 through May 2026 — roughly 1.9 times the national average of 412, and the highest rate in the Southeast alongside North Carolina.
- Temporary construction moratoria spread across fast-growing communities in 2025 (Fort Mill, Greenville, and Jasper County among them). Fort Mill adopted a second pause in March 2026 that remains in effect through September 30.
- Statewide inventory has climbed to roughly 5.4 months of supply from 3.6 months in December 2025, moving South Carolina into the 4–6 month range considered a healthy, balanced market.

South Carolina and the Affordability Crisis

- South Carolina's overall cost of living remains about 6% below the national average.
- Social Security benefits are fully exempt from state income tax, and retirees 65+ can deduct up to $15,000 of other retirement income — making SC one of the most retirement tax-friendly states in the country.
- Gas in South Carolina averaged about $3.48 a gallon in mid-August, well under the national average near $4.10 — but still roughly 73 cents above a year ago. The EIA expects the national average to settle around $3.64 for 2026.
- Average full-coverage car insurance premiums in South Carolina are roughly $2,000–$2,400 per year, around the national average to somewhat above it.

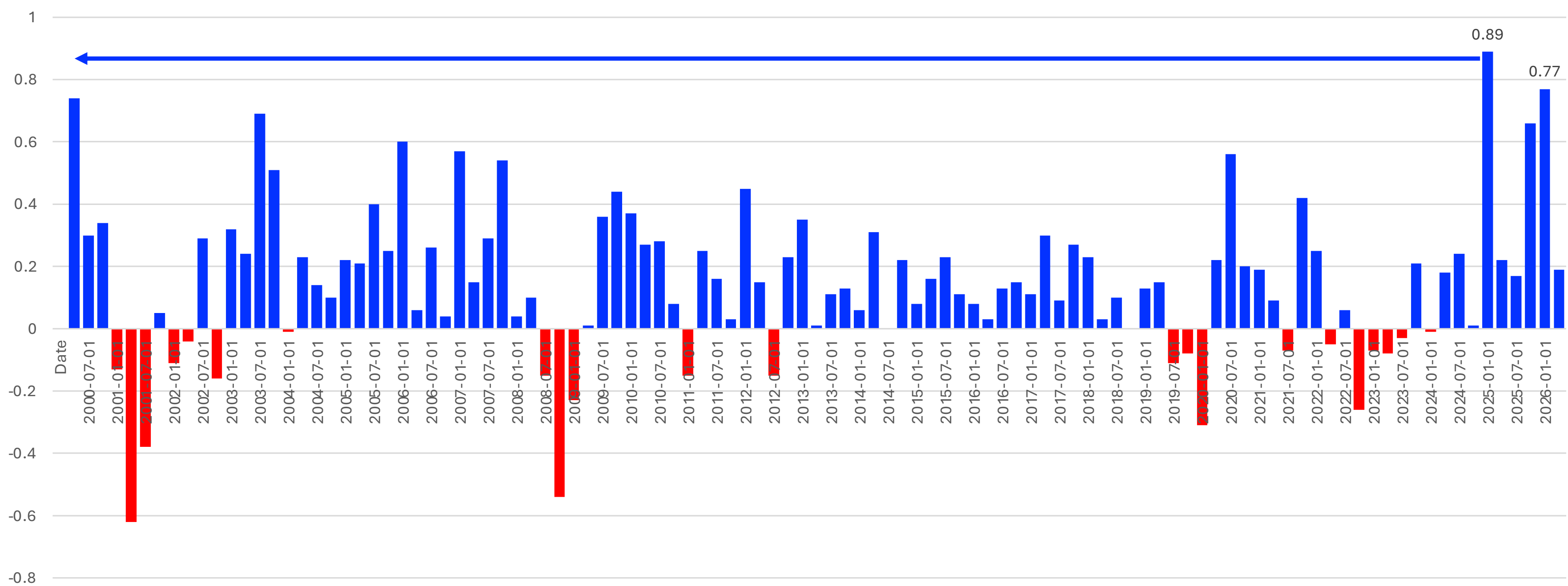
Investment



Investment Outlook

- Much of the growth in investment in 2025 is coming from AI-Equipment. It has added about 40 basis points to GDP growth each quarter.

AI Investment: Computer Equipment

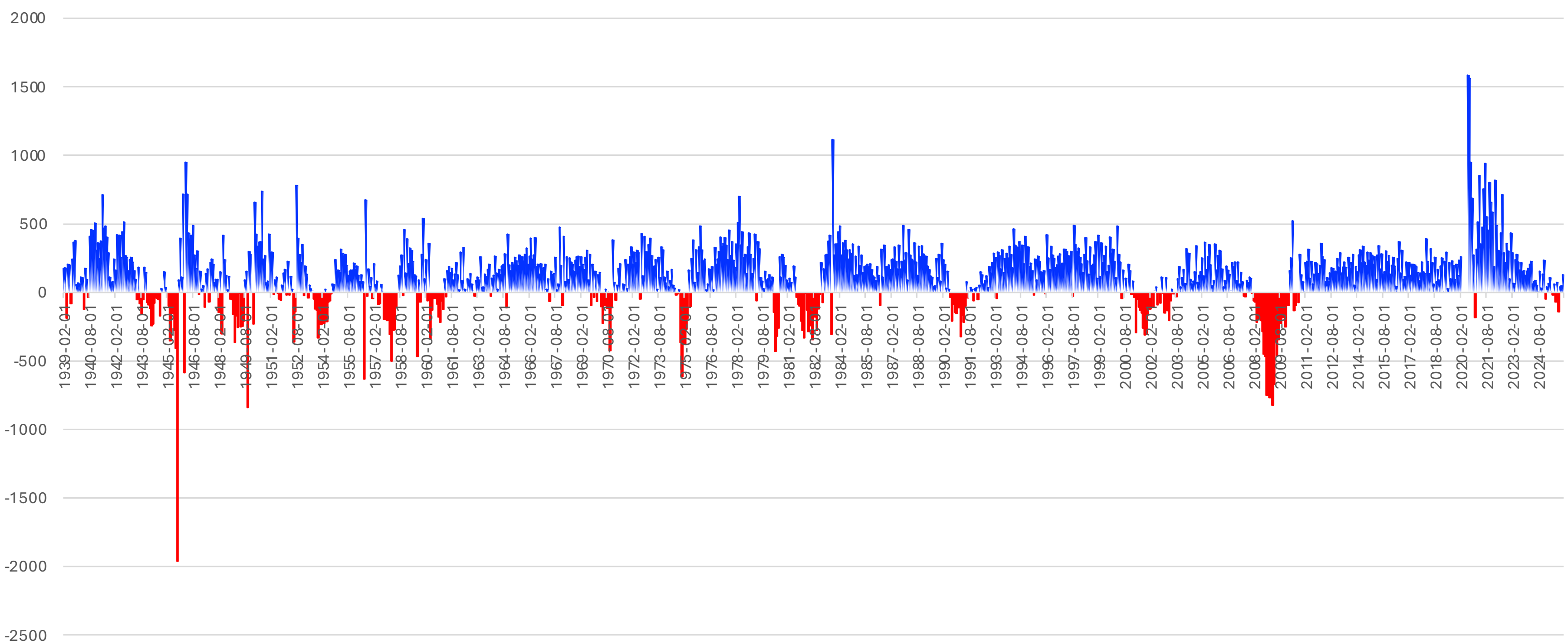


If you add in investment in intellectual property (software) and data centers AI investment has been adding about 75 basis points to real GDP growth and by some measures it accounts for all of GDP growth in 2025.

Investment Outlook

- Tariff uncertainty has impacted fixed investment, and firms have altered their behavior in 2025:Q1 to stockpile inventories.
- The impact of the conflict in Iran may act as a drag on investment as higher petroleum prices will increase cost and consumer demand uncertainty may slow investment.
- The One Big Beautiful Bill (OBBB) will have some positive direct effects on business investment:
  - Permanent 21% corporate tax rate maintained from TCJA, with accelerated depreciation provisions for certain sectors (e.g., energy, manufacturing, AI/tech)
  - Investment tax credit for U.S.-based semiconductor manufacturers building new facilities before 2026.
  - Refundable R&D credit: Enhanced support for small businesses and startups. Firms can immediately expense domestic R&D costs, aligning tax treatment with GAAP.
  - 100% depreciation, reversing phase-out to 2025. Businesses can now immediately deduct full qualifying equipment costs.
- The outcomes of these will be increased domestic investment, boost short-term cash flows, and potentially increase domestic supply chains.

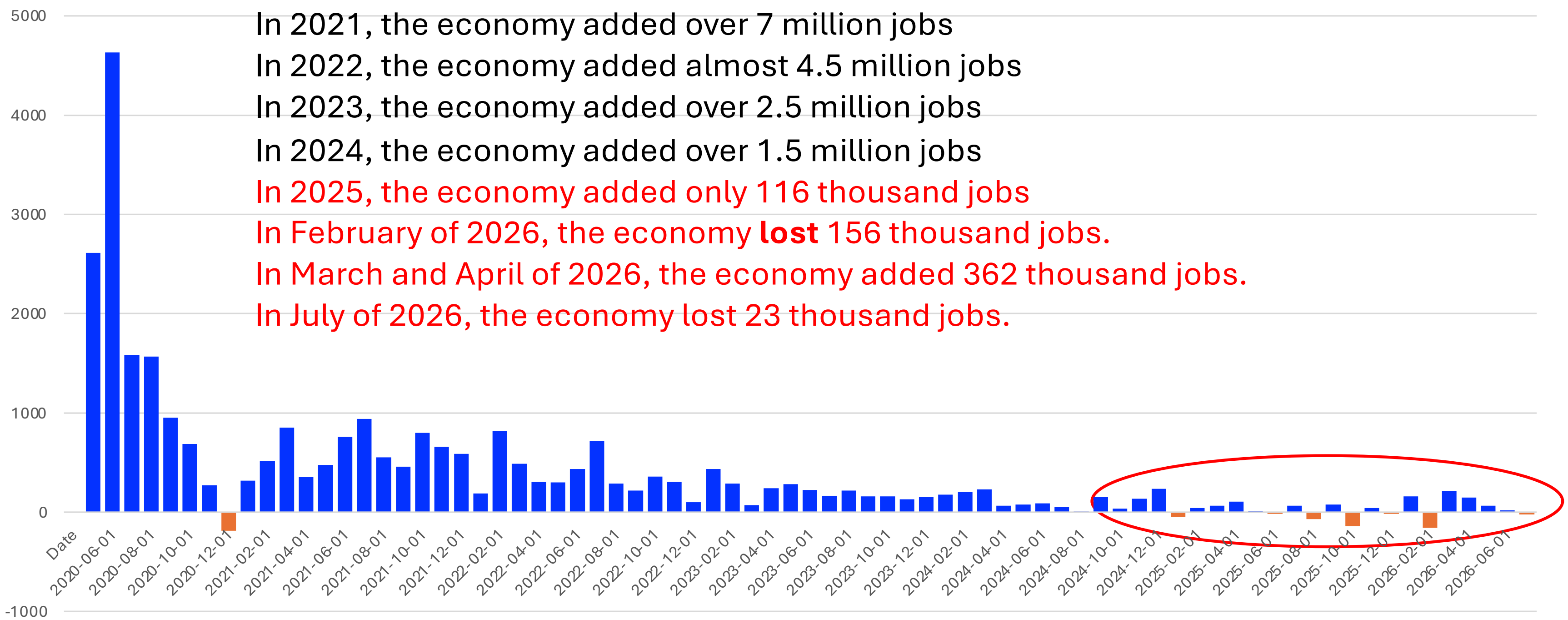
Change in Employment



On average, about 135k jobs are created each month

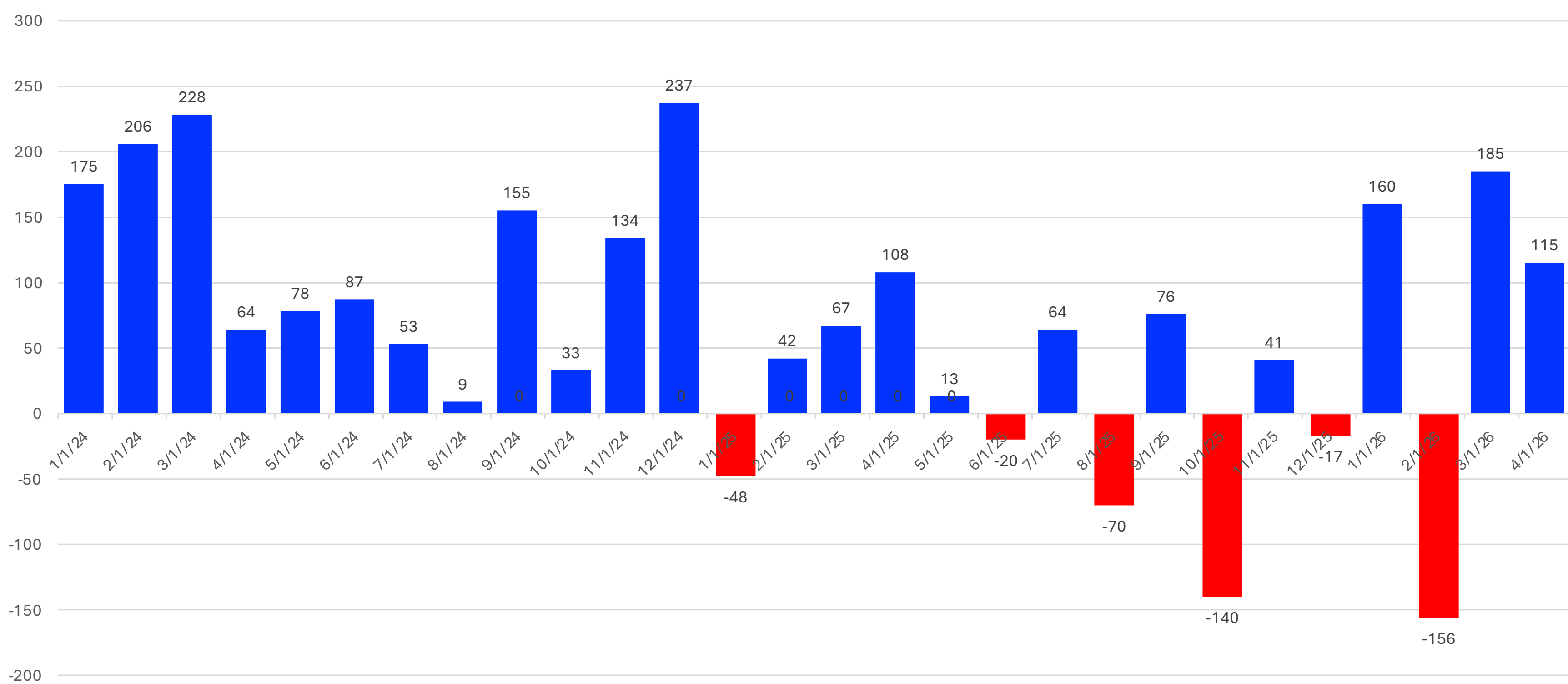
Change in Non-Farm Payroll

In 2020, from May until December the economy added over 12 million jobs
In 2021, the economy added over 7 million jobs
In 2022, the economy added almost 4.5 million jobs
In 2023, the economy added over 2.5 million jobs
In 2024, the economy added over 1.5 million jobs
In 2025, the economy added only 116 thousand jobs
In February of 2026, the economy **lost** 156 thousand jobs.
In March and April of 2026, the economy added 362 thousand jobs.
In July of 2026, the economy lost 23 thousand jobs.

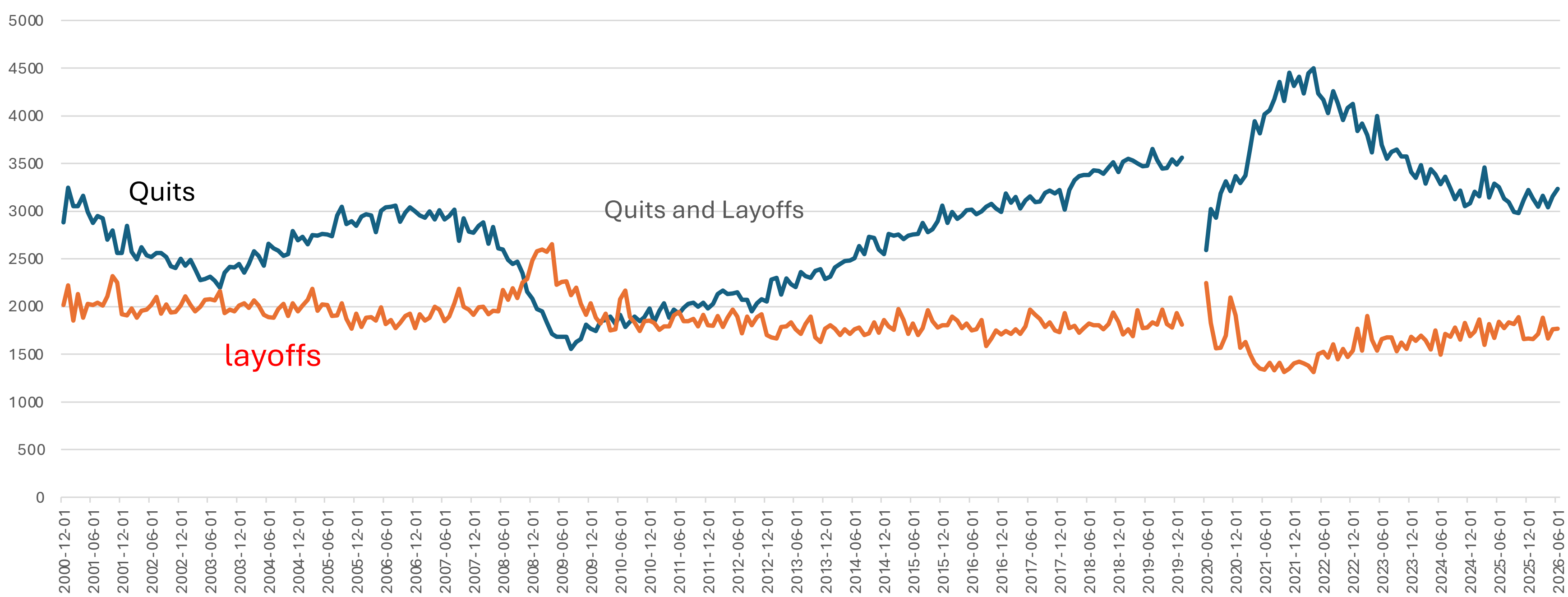


Dates 5/20-2/26

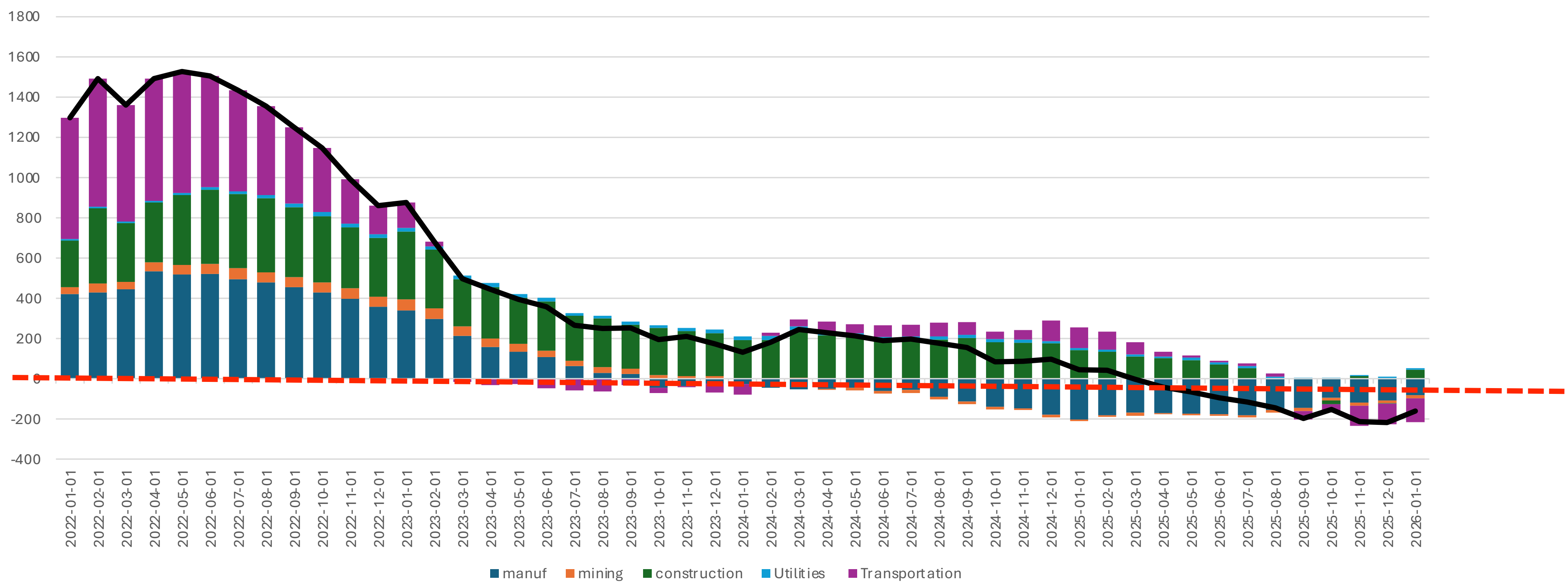
Change in Employment



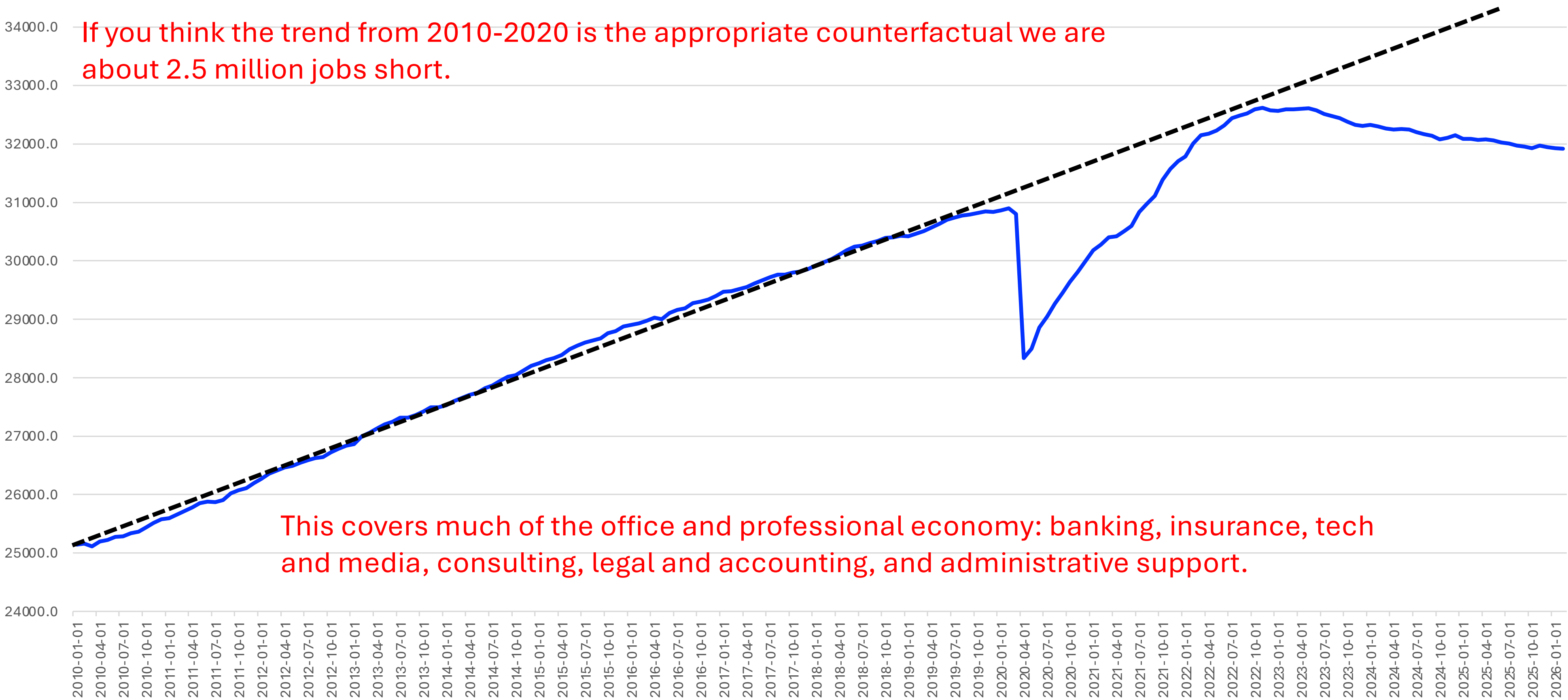
Job Separations



Change in “Blue Collar Jobs”



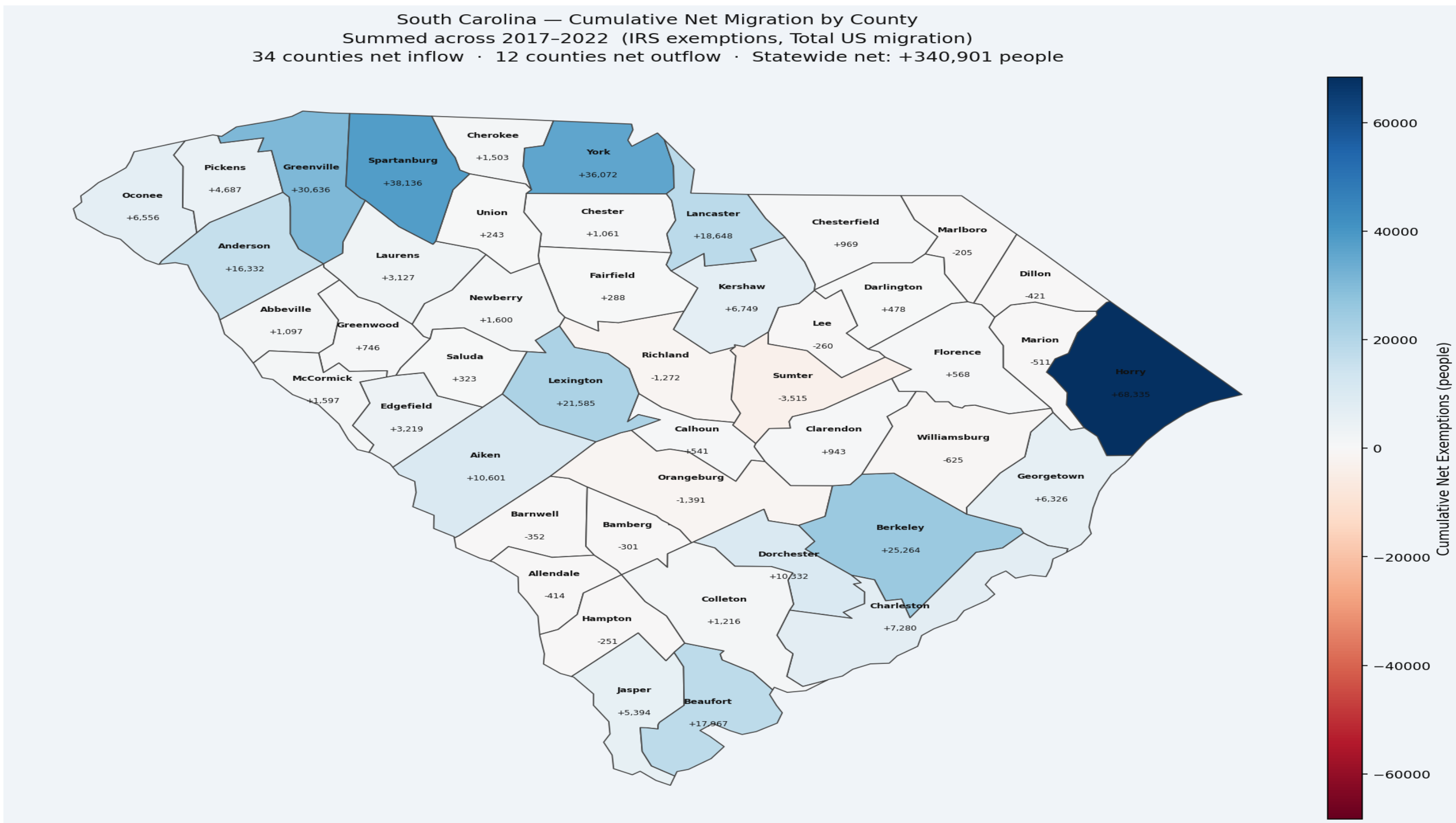
Total Employment: FIIBS (Finance, Insurance, Information & Business Services)



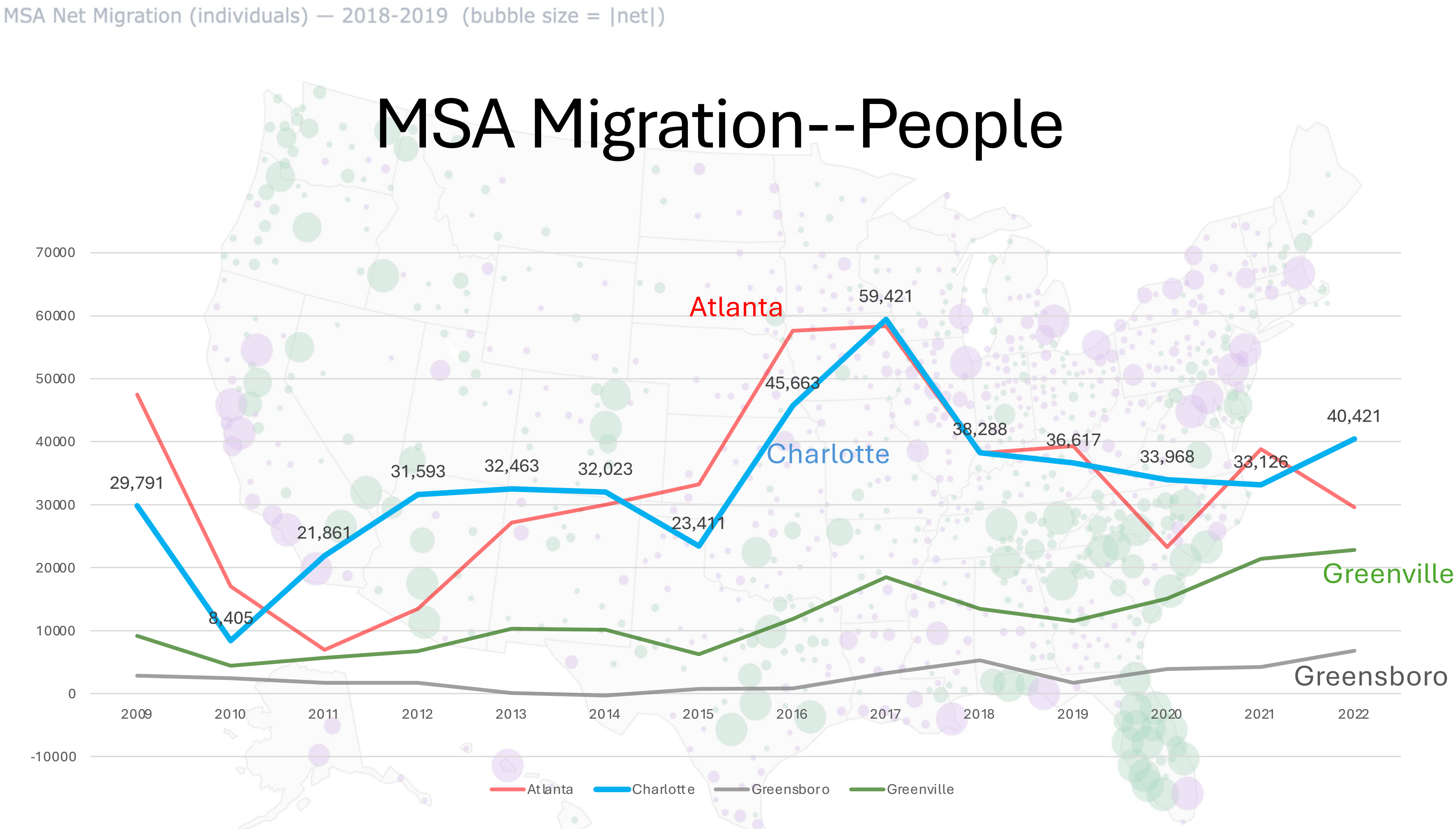
South Carolina Labor Market

- South Carolina recorded the fastest population growth of any state between July 2024 and July 2025 — 1.5% — driven primarily by net domestic in-migration of 66,622 people

Cumulative Net Migration by County

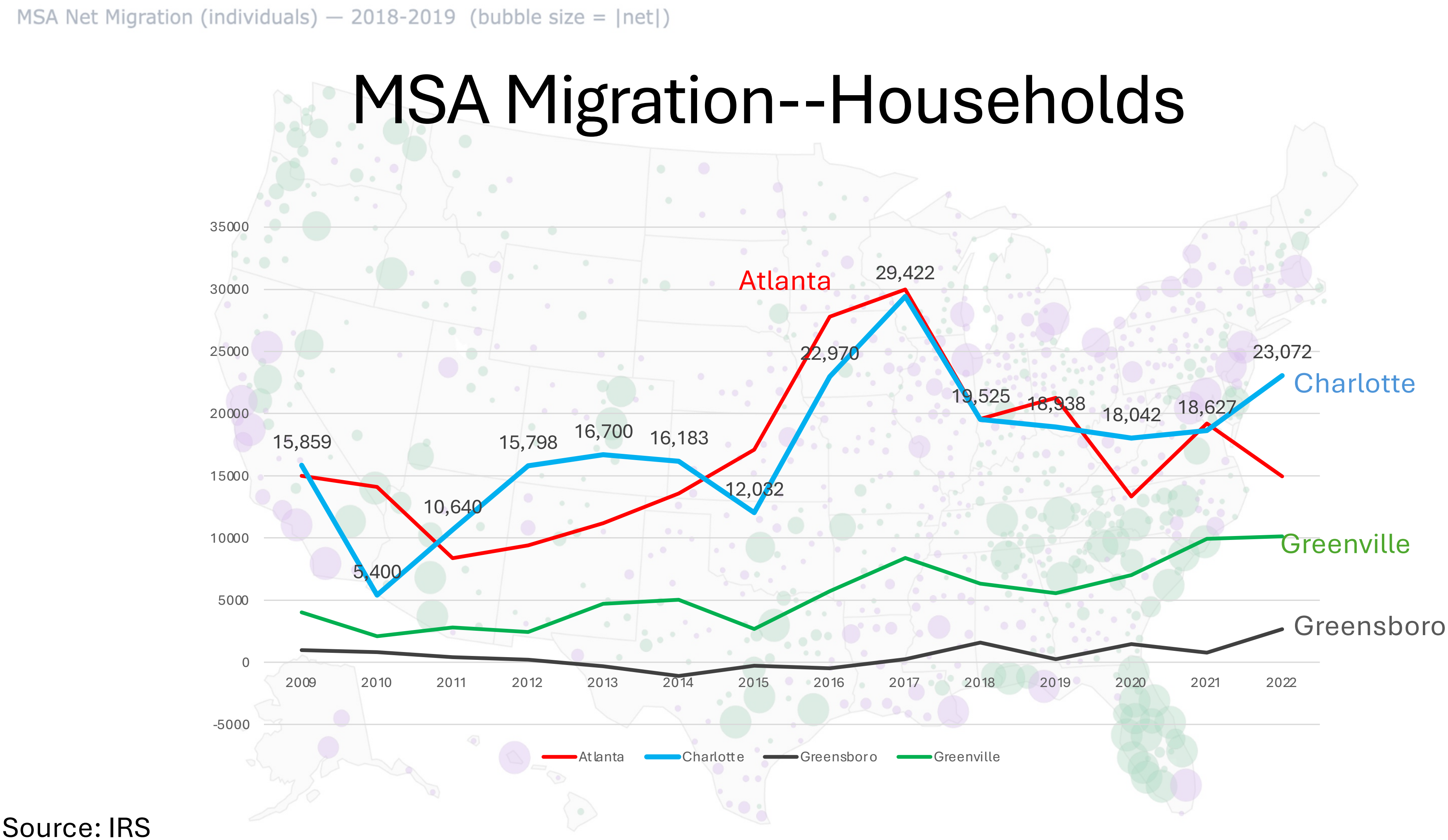


MSA Migration--People



Source: IRS

MSA Migration--Households



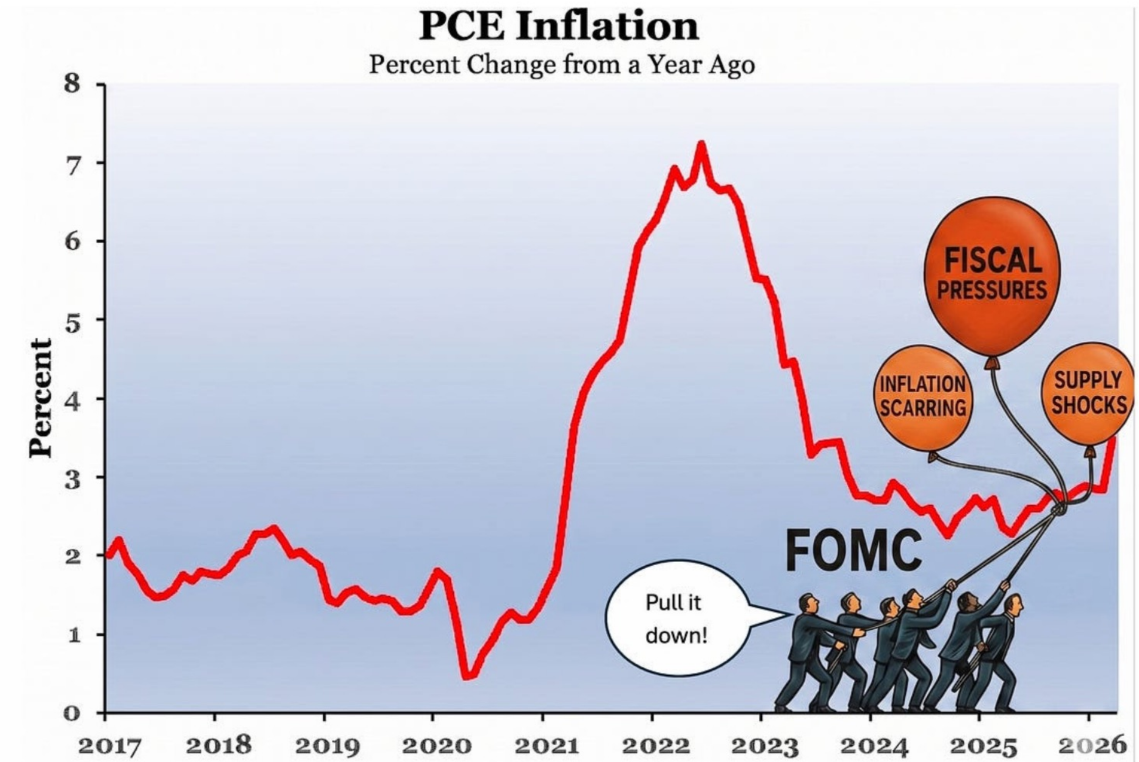
Source: IRS

South Carolina Labor Market

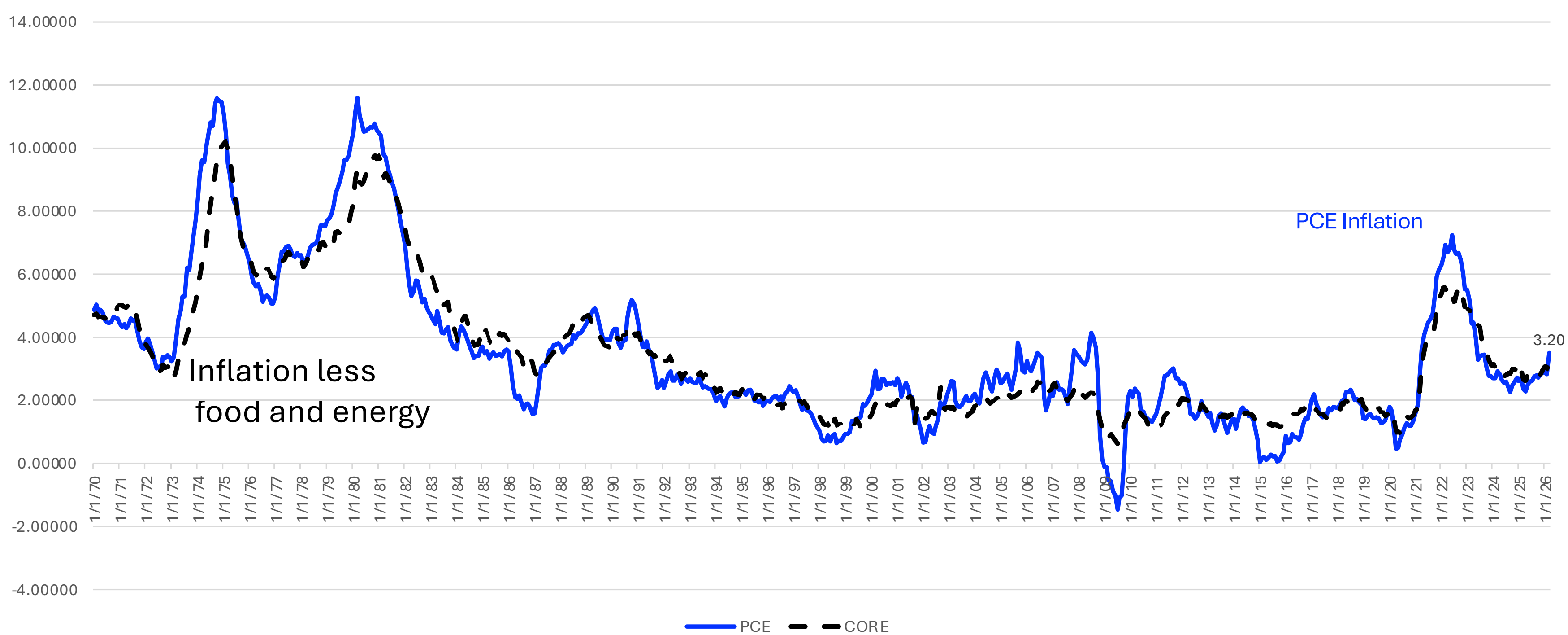
- South Carolina recorded the fastest population growth of any state between July 2024 and July 2025 — 1.5% — driven primarily by net domestic in-migration of 66,622 people.
- Payroll job growth has cooled sharply: 18,300 jobs (0.8%) over the year through June 2026, down from 48,400 (2.0%) a year earlier. Gains in education and health services, leisure and hospitality, and government were partly offset by losses in professional and business services and information.
- Even so, unemployment fell to 4.4% in June 2026 — a fourth consecutive monthly decline — with a record 2,554,577 South Carolinians working. Greenville County, the state's largest labor force, sits at 3.7%.

South Carolina Labor Market

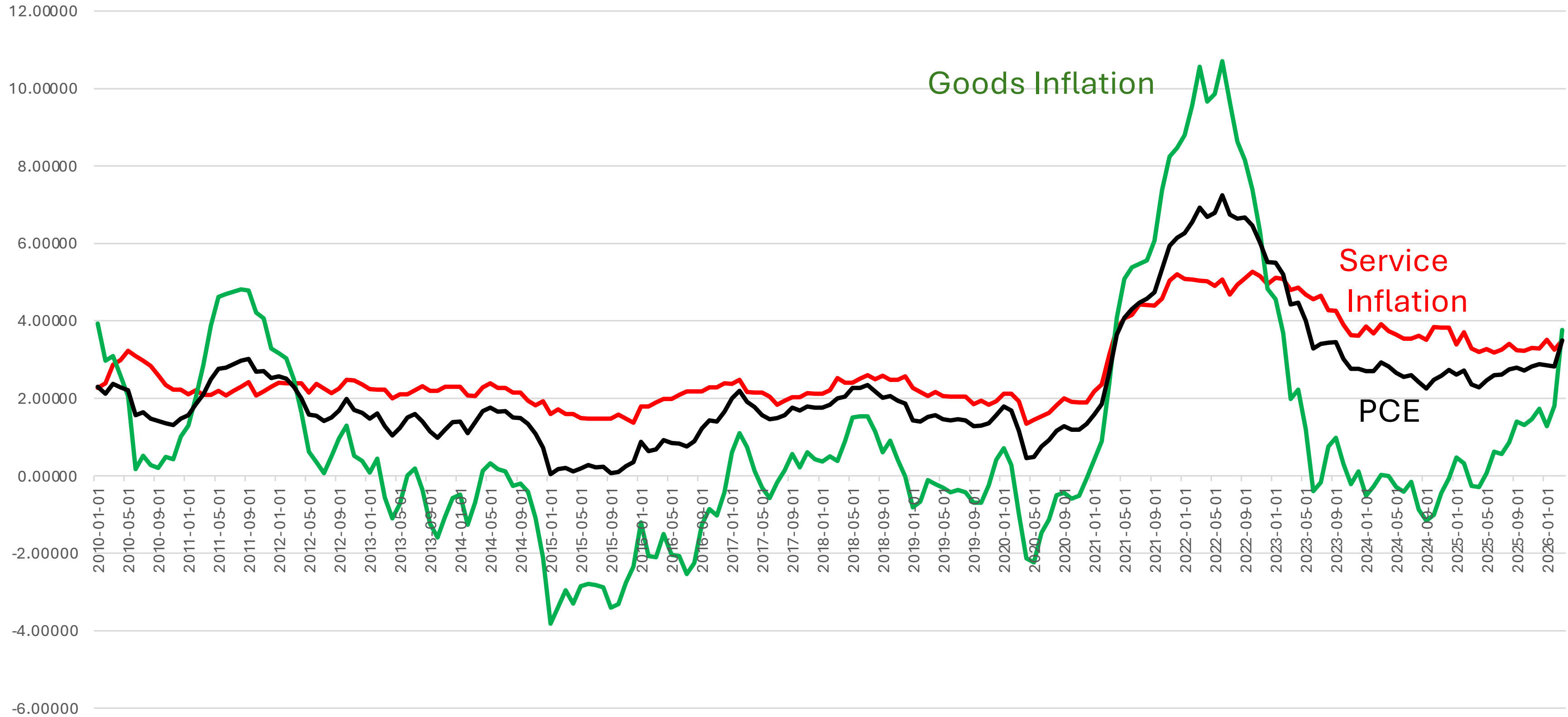
- Average weekly wages in SC reached $1,198 in Q3 2025 — up 4.9%, or $56, year-over-year — with increases in 43 of 46 counties and in all but one sector.
- **Labor Market Regulation:** It ranks **6th** among U.S. states on the labor freedom component (score 7.63), and **5th** on the all-government labor measure (score 8.43).
- SC's average weekly wage ranks 35th among the states, but a lower cost of living lifts its purchasing power to the equivalent of $1,194 a week.


PCE Inflation
Percent Change from a Year Ago
Percent
8
7
6
5
4
3
2
1
0
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
FISCAL PRESSURES
INFLATION SCARRING
SUPPLY SHOCKS
FOMC
Pull it down!

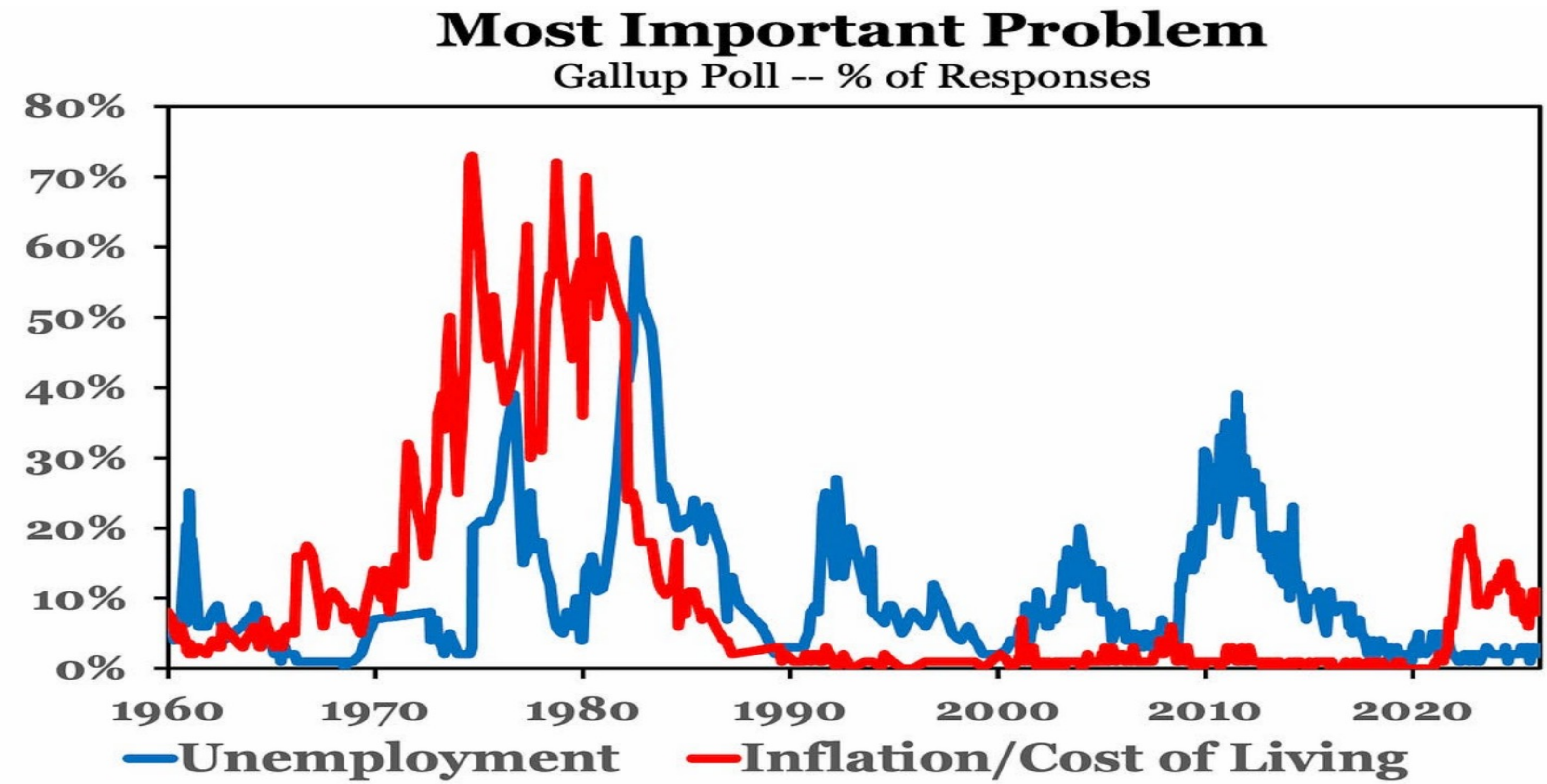
Inflation (PCE)

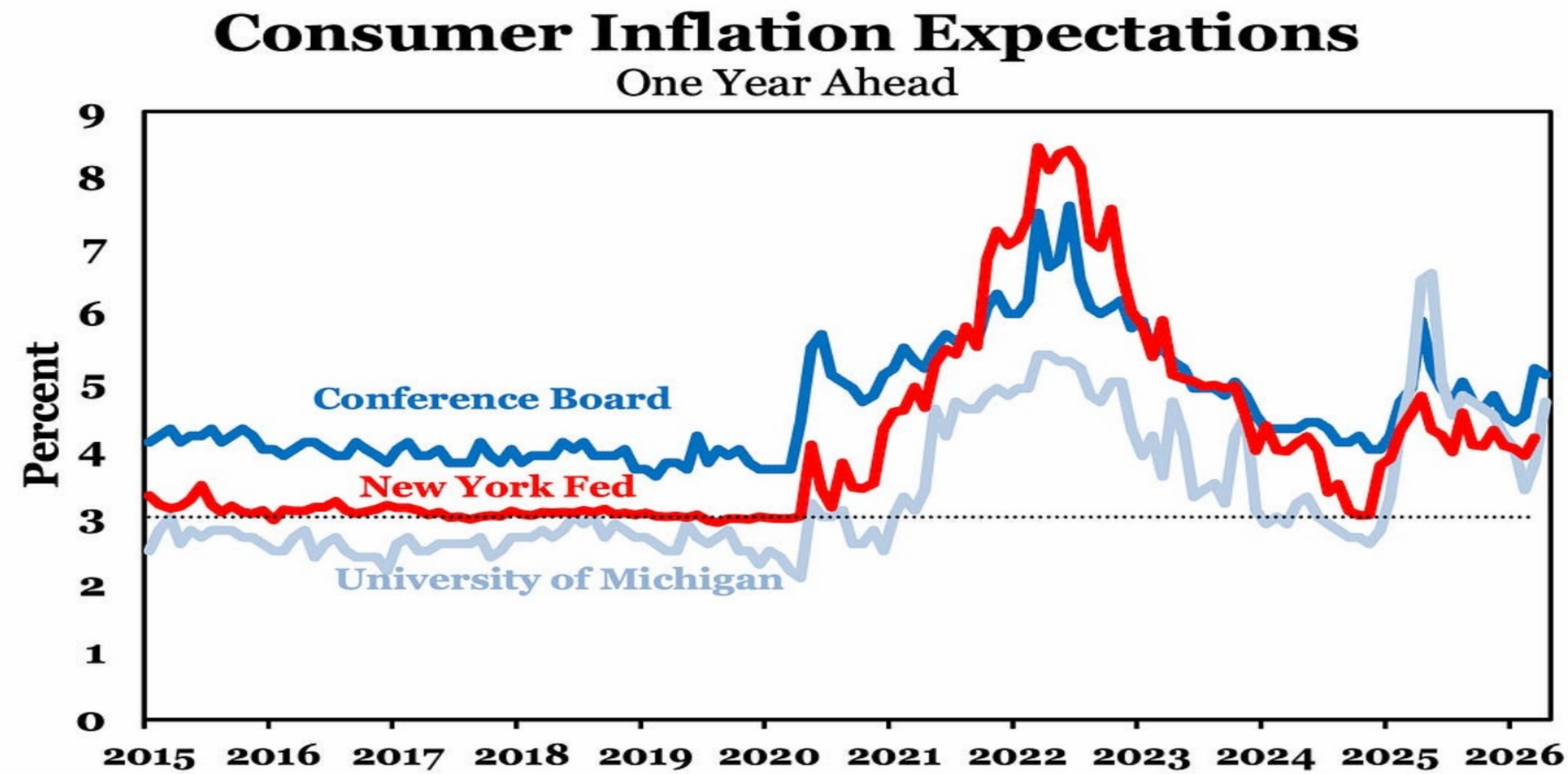


Goods and Service Inflation



Gallup Poll


Most Important Problem
Gallup Poll -- % of Responses
80%
70%
60%
50%
40%
30%
20%
10%
0%
1960
1970
1980
1990
2000
2010
2020
Unemployment
Inflation/Cost of Living

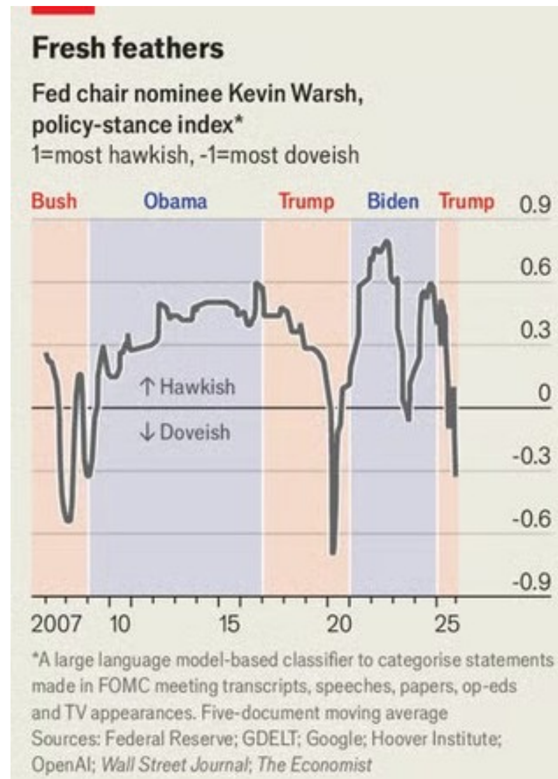

Consumer Inflation Expectations
One Year Ahead
Percent
Conference Board
New York Fed
University of Michigan
0
1
2
3
4
5
6
7
8
9
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026


Google Searches for Inflation
Source: Google Trends
Percent
120
100
80
60
40
20
0
2010
2013
2016
2019
2022
2025

Inflation Takeaway

- It is important that inflation expectations remained anchored. If not, it becomes harder to bring down inflation following supply shocks.
- The charts seem to indicate that inflation remains anchored, but consumers are inflation scarred.
  - Long-run inflation expectations has not drifted upward.
  - Households are paying more attention to prices, but their concern isn't spiraling — it's a higher baseline rather than an accelerating trend.
  - Nominal GDP is running above the CBO-forecast, but as of last month most forecasts expect nominal GDP to return to trend.

Direction of the Fed



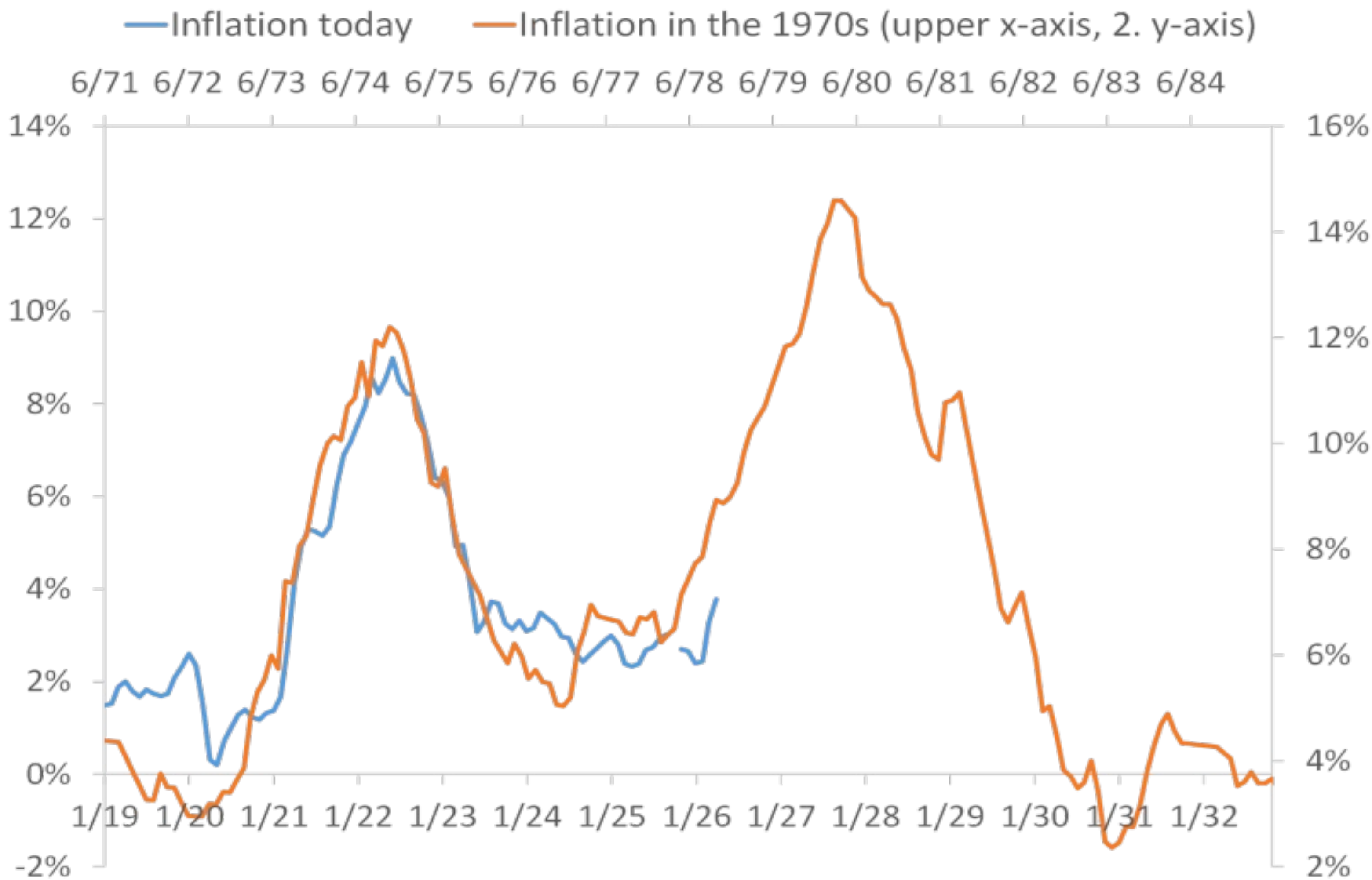
The Fed's Navigation Challenge: Dual Mandate Under Pressure

- The Federal Reserve's dual mandate: stable prices (2% inflation target) and maximum employment.
- Current state: Core PCE inflation at 3.2% — above target and starting to rise again.
- Labor market weakening: monthly payroll gains down from 175K+ to ~115K; unemployment at 4.3%.
- The Fed's typical playbook:
  - When inflation is too high → raise rates to slow demand, cool hiring, reduce demand
  - When job growth slows → cut rates to stimulate spending and job creation
- The current dilemma: inflation still sticky but labor market showing signs of softening.
  - If Fed holds rates too high for too long → risks tipping the economy into recession
  - If Fed cuts rates too early → inflation re-accelerates and credibility is damaged
  - **Powell's stance: cautious, patient approach; waiting for clear evidence inflation is on path to 2%.**

Source: Federal Reserve; BLS; BEA

Fed’s Challenge of High Inflation and Weak Labor Market

- Conflicting mandates pull policy in opposite directions. With higher inflation the Fed would raise rates, but a weak labor market encourages to cut rates.
- Credibility could be lost. If the Fed cuts rates to increase employment, this may raise inflation and inflation expectations become unanchored.
- If the Fed chooses to raise rates to lower inflation, the higher interest rates only suppress demand even further – more unemployment slower output growth.

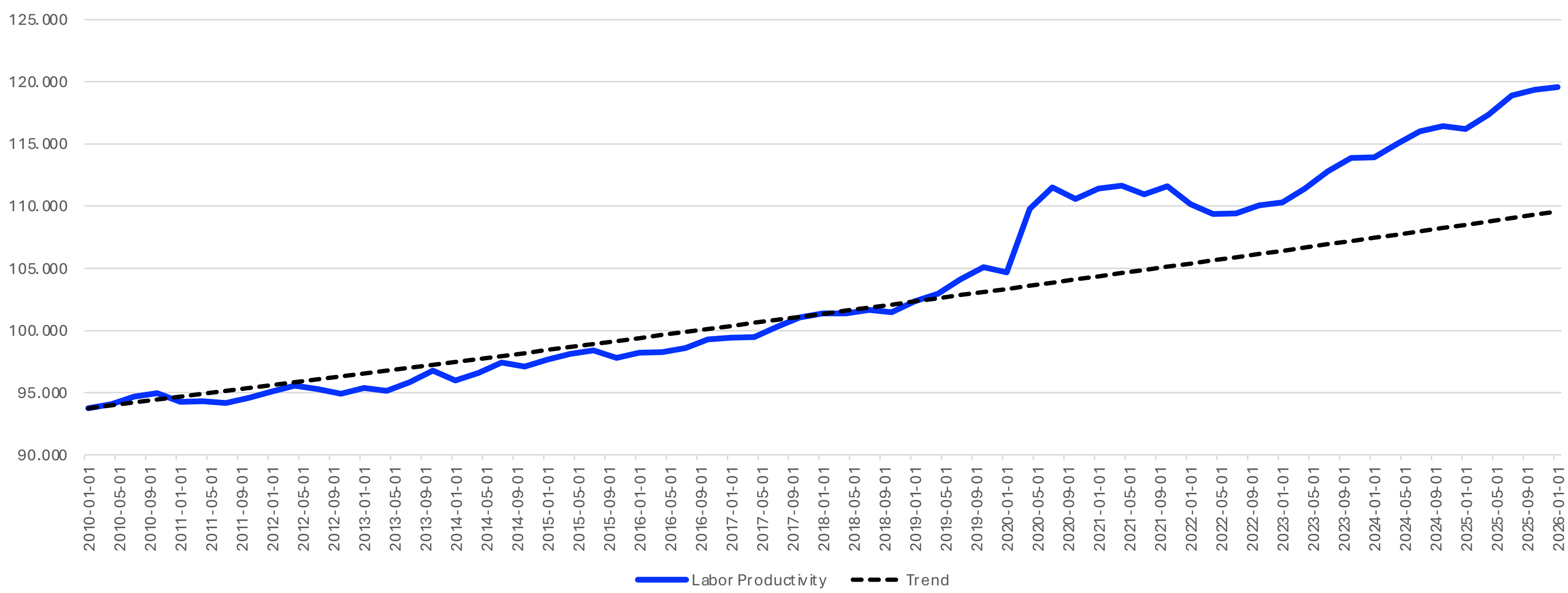


Source: Jesper Rangvid

The Fed's Dream Scenario the

- The is a situation that would allow the Fed to have a lot of flexibility and that would be if labor productivity increased.
- It could be lead by AI,....
- But it need not be.

Labor Productivity: The Hope for the Fed



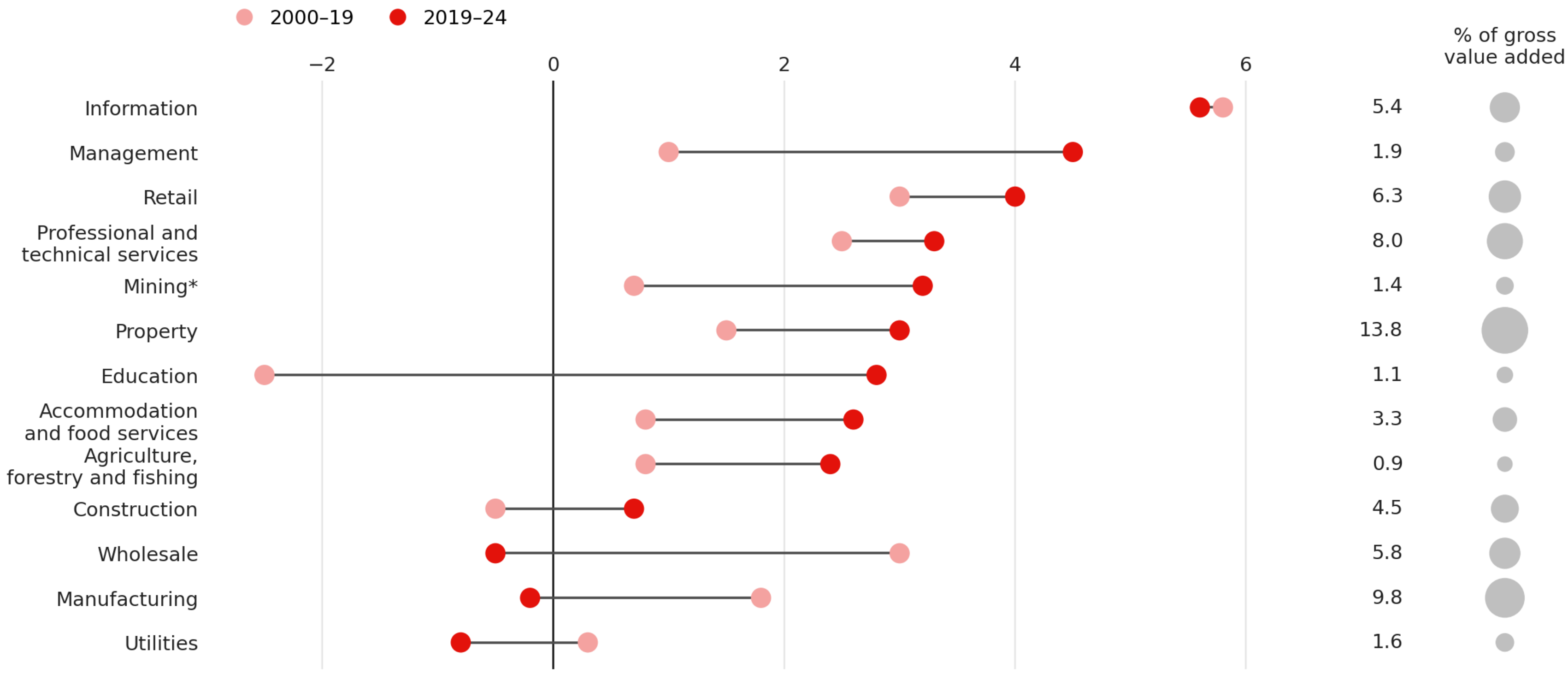
Source: BLS;

Labor Productivity: The Puzzle and the Promise

- 2024 productivity grew 2.3% — the highest annual rate in 14 years (excluding the pandemic spike of 2020).
- Nonfarm business productivity in Q3 2025 surged to 4.9%.
- **Historical context:**
  - 1989–2010 average: 2.4% per year.
  - 2011–2019 average: 1.4% per year — the 'productivity puzzle' era.
  - Current business cycle (Q4 2019–present): 2.0% annualized.
- **AI is the key upside: workers using AI are 33% more productive per hour.**

Source: BLS; ADP Research; Federal Reserve Bank of Chicago

U.S. Labor Productivity



Source: BEA; Bureau of Labor Statistics **Mainly oil and gas*

U.S. Labor Productivity per Hour Worked, Average Annual Change (%)

High Productivity + Weak Labor Market: The Fed's Dream Scenario?

- The scenario: productivity growth stays strong (2.3%+) even as labor market softens.
- Why this changes everything for the Fed:
  - High productivity allows the economy to grow faster WITHOUT triggering inflation.
  - Firms can increase output without needing to hire aggressively — less wage pressure.
  - Unit labor costs (wages growth - productivity growth) stay contained even if wages rise modestly.
  - Example: if productivity grows 2.5% and wages grow 3.5%, unit labor costs rise only 1%.

Source: Federal Reserve Bank of San Francisco; BLS; ADP Research

High Productivity + Weak Labor Market: The Fed's Dream Scenario?

- What the Fed could do in this scenario:
  - Cut rates more aggressively to support employment without fearing inflation resurgence
  - Achieve a 'soft landing' — inflation falls to 2% while unemployment stays at 4.0–4.5%
  - Raise the economy's speed limit: potential GDP growth could rise from 2% to 3%+
- The risk: productivity gains may be temporary (measurement issues, one-time AI adoption).
- Key question: Is 2024's 2.3% productivity growth the start of a new era or a temporary blip?

Source: Federal Reserve Bank of San Francisco; BLS; ADP Research

Forecast and Bottom Line

12-Month Baseline (mid-2026 to mid-2027)

- Real GDP growth: **1.5%–2.0%** — below trend; AI investment offsets softer consumer and tariff drag
- Headline PCE inflation: **4.0%–5.0%** — unless Fed accommodates the supply shock; full return to 2% unlikely before late 2027
- Unemployment: drifts to **4.5%–4.8%**; payroll gains average **75–125k**/month
- Fed funds rate: **two 25 bp cuts** by mid-2027, landing near **3.75%–4.00%**; recession probability ~30%

Risks to the Outlook

- **Downside:** oil shock from Iran conflict re-accelerates inflation, forcing the Fed to hold longer and tipping a soft labor market into recession
- **Upside:** AI productivity gains broaden beyond tech, letting GDP grow above trend without wage–price pressure — the Fed's "dream scenario"

Bottom line: *slower growth, sticky inflation, a softer but not broken labor market — and a Fed that moves cautiously, not aggressively.*

Thank You.