Structural Headwinds Limit U.S. Economy's Growth Potential

By Nur M. Onvural

Dr. Onvural is an adjunct Professor at North Carolina State University and Campbell University. She is teaching Applied Economics for Business Leaders, Healthcare Finance, and Healthcare Policy and Law in the MBA program, Data Analytics, and Finance for Non-Financial Leaders in the MS in Applied Leadership program, and Financial Modeling, Data Visualization and Quantitative Methods, and Healthcare Policy to undergraduate students.

PARTICIPANTS | Board = Hilliard, Ohio; Conference Board, New York, New York; Fannie Mae = Fannie Mae, Washington, D.C.; GSU - EFC = Georgia State University, Economic Forecasting Center, Atlanta, Georgia; Moody's Economy = Moody's Economy.com, Westchester, Pennsylvania; Mortgage = Mortgage Bankers Association, Washington, D.C.; National Restaurant = National Restaurant Association, Washington, D.C.; Perryman Gp = The Perryman Group, Waco, Texas; Royal Bank of Canada, Toronto, Ontario, Canada; S&P = Standard & Poor's, New York, New York; US Chamber = U.S. Chamber of Commerce, Washington, D.C.; Wells Fargo = Wells Fargo Bank, San Francisco, California.

The information in these forecasts is gathered by the Journal from sources it considers reliable. Neither the Journal nor the individual institutions providing the data can guarantee accuracy, nor do they claim that use of the data appearing herein will enhance the business or investment performance of companies or individuals who use them.

Real GDP expanded at a 2.00% annualized rate in the first quarter of 2026, reflecting a generally solid pace of economic activity prior to the onset of the Iran conflict. The labor market has remained relatively resilient, with the unemployment rate holding steady at 4.30% in May. At the same time inflation has edged higher, rising to 4.20% in May, the highest in three years, highlighting persistent underlying price pressures despite moderating economic growth.

Dr. Ray Perryman of the Perryman Group states that the lingering uncertainty associated with the conflict in the Middle East continues to weigh on the economy and create hardship for many consumers and small businesses who are confronted with higher prices. However, Wells Fargo believes that the U. S. economy remains on an upward growth path, supported by resilient consumer spending and robust investment driven by the continued expansion of AI-related infrastructure, despite signs of moderation in household demand.

Rajeev Dhawan of the Economic Forecasting Center at Georgia State University's J. Mack Robinson College of Business states that history does not repeat itself, but often rhymes. He believes that while the current oil shock shares some similarities with the crises of 1973 and 1979, it differs in several important respects, making the domestic economic impact of the eight-week closure of the Strait of

Hormuz more irritating than debilitating.

For the period Q3 of 2026 to Q2 of 2027, Consensus forecasts that GDP will grow by 1.45%. Since geopolitical tensions continue with no clear sign of a peace deal, this modest growth can be perceived as adequate. Over the same period, Consensus projects an increase in the M2 money supply by 3.91%, rising from $23,397.15 billion in Q3 2026 to $24,312.76 billion in Q2 2027, up from $22,804.50 billion in April 2026. This continuous increase in the money supply is likely to contribute to further upward pressure on prices. Hence, Consensus expects the unemployment rate to change slightly from 4.51% in Q3 of 2026 to 4.44% in Q2 of 2027.

CONSUMERS: SPENDING RESTRAINED AS CONSUMER SENTIMENT NEARS RECORD LOWS, IRAN CONFLICT PUSHING PRICES HIGHER

Consensus forecasts indicate that personal disposable income will increase by 3.89% from Q3 2026 through Q2 2027, outpacing the projected 3.37% growth in personal consumption expenditures over the same period. This gap suggests that consumers are becoming more cautious in their spending behavior amid continued economic uncertainty. Additionally, consumers in the lower-income brackets are running out of money by the end of each month, experiencing negative cash flows and drawing down their savings. Thus, this financial strain has contributed to consumer sentiment falling to near-record lows.

The consumption-to-disposable-income ratio is expected to remain stable at 92% throughout 2026 according to Consensus, reflecting a pattern of steady but restrained consumer spending.

Wells Fargo believes consumer spending held up in the immediate wake of the Iran conflict, but there are early signs of some softening in consumption into the second quarter. They expect higher prices to continue to erode already weak income growth in coming months, resulting in lower purchasing power and a likely pullback in consumer spending.

Consensus forecasts indicate that light vehicle purchases will increase by 2.69% from Q3 2026 through Q2 2027, with sales reaching 16.23 million units by Q2 2027. Moreover, Consensus forecasts the Chained Price Index to increase by 1.80% while the Consumer Price Index (CPI) is expected to rise by 1.55% over the forecast period. Although both measures track price changes, the Chained Price Index is generally regarded as a more accurate gauge of inflation.

FIRMS: LOW-HIRE, LOW FIRE ENVIRONMENT AS COMPANIES REMAIN CUATIOUS AMID IRAN UNCERTAINTY, ASIA HIT BY OIL SHORTAGES

Consensus expects the unemployment rate - 4.30% in May - to fall slightly from 4.51% in Q3 of 2026 to 4.44% in Q2 of 2027. Wells Fargo continues to describe the labor market as a "low-hire, low-fire" environment. While layoffs remain contained outside the technology sector, hiring demand shows little sign of improvement, with job openings and hiring announcements remaining subdued. As a result, they expect nonfarm payroll growth to slow to about 55,000 jobs per month for the rest of the year, pushing the unemployment rate to 4.40% by the third quarter. With hiring activity soft, Wells Fargo also expects wage growth to moderate further, with the Employment Cost Index (ECI) easing to 3.30% year over year.

Dhawan notes that large corporations with a global market presence are unlikely to pursue significant expansion in the coming quarters and, as a result, will likely remain cautious in hiring additional workers. He also emphasizes that even if the Strait of Hormuz were fully reopened today, it would take at least two to three months for increased energy supplies to reach global markets. Consequently, each additional month of disruption would further deplete existing oil inventories, raising the risk of production slowdowns or temporary shutdowns in parts of Asia by late summer as energy supplies become increasingly constrained.

As of the beginning of June, average fixed mortgage rates were about 6.48% for a 30-year fixed rate loan and 5.79% for a 15-year loan. According to Freddie Mac, with mortgage rates in the mid-6% range and income growth outpacing home price growth, housing affordability is marginally improving. These rates are lower than where they were a year ago.

PARTICIPANTS	GROSS DOMESTIC PRODUCT (GDP) Bil. of Chained 2017 Dollars | Level				PERSONAL DISPOSABLE INCOME Based on GDP Concept | Curr. Bil. of $, Level (SAAR)			
QUARTER	**26-3**	**26-4**	**27-1**	**27-2**	**26-3**	**26-4**	**27-1**	**27-2**
Board | Michelle Green	24348.50	24490.61	24627.82	24755.65	24,012.03	24,267.92	24,534.49	24,803.8
Conf. Board | Yelena Shulyatyeva	24,285.26	24,362.78	24,474.23	24,590.25	NA	NA	NA	NA
Fannie Mae | Mark Palim	24,419.00	24,559.00	24,706.00	24,857.00	23,939.00	24,284.00	24,690.00	25,045.0
GSU-EFC | Rajeev Dhawan	24,278.90	24,356.34	24,452.35	24,585.03	24,435.71	24,809.31	25,162.72	25,495.7
Moody's Economy | Mark Zandi	24,434.55	24,530.81	24,624.39	24,735.23	24,125.84	24,455.70	24,712.74	24,994.4
Mortgage | Mike Fratantoni	NA	NA	NA	NA	NA	NA	NA	NA
National Restaurant Association | Chad Moutray	24,435.00	24,530.00	24,625.00	24,735.00	24,125.00	24,455.00	24,715.00	24,995.0
Perryman Gp | Ray Perryman	24,427.39	24,568.43	24,718.57	24,874.01	23,986.09	24,277.00	24,562.81	24,782.1
Royal Bank of Canada | Nathan Janze	24,419.82	24,527.94	24,638.33	24,754.94	23,992.30	24,204.00	24,418.60	24,647.3
S & P | Satyam Panday	24,435.32	24,572.88	24,680.46	24,800.46	24,391.49	24,771.55	25,130.50	25,467.9
US Chamber | Curtis Dubay	24,429.00	24,557.25	24,686.18	24,815.78	24,151.29	24,503.80	24,861.45	25,224.3
Wells Fargo | Jay Bryson	NA	NA	NA	NA	NA	NA	NA	NA
Consensus	**24,396.03**	**24,507.27**	**24,622.83**	**24,749.74**	**24,143.34**	**24,470.05**	**24,781.73**	**25,081.4**

PARTICIPANTS	PERSONAL CONSUMPTION EXPENDITURE Based on GDP Concept | Curr. Bil. of $ | Level (SAAR)				CONSUMER PRICE INDEX 1982-1984=100 | LEVEL			
QUARTER	**26-3**	**26-4**	**27-1**	**27-2**	**26-3**	**26-4**	**27-1**	**27-2**
Board | Michelle Green	22040.37	22214.75	22426.22	22654.41	334.95	335.78	336.96	338.70
Conf. Board | Yelena Shulyatyeva	NA	NA	NA	NA	NA	NA	NA	NA
Fannie Mae | Mark Palim	22,330.00	22,559.00	22,798.00	23,048.00	336.10	337.50	339.10	341.00
GSU-EFC | Rajeev Dhawan	22,035.03	22,245.36	22,486.44	22,759.48	335.37	335.77	337.00	338.47
Moody's Economy | Mark Zandi	NA	NA	NA	NA	334.18	336.65	338.90	341.23
Mortgage | Mike Fratantoni	NA	NA	NA	NA	NA	NA	NA	NA
National Restaurant Association | Chad Moutray	22,175.00	22,405.00	22,640.00	22,880.00	334.18	336.65	338.90	341.23
Perryman Gp | Ray Perryman	22,202.08	22,441.28	22,705.48	22,930.93	NA	NA	NA	NA
Royal Bank of Canada | Nathan Janze	NA	NA	NA	NA	334.66	334.17	336.03	339.44
S & P | Satyam Panday	22,305.69	22,527.37	22,714.31	22,937.50	334.00	336.00	337.00	339.00
US Chamber | Curtis Dubay	22,168.57	22,492.14	22,820.42	23,153.50	334.24	335.00	336.60	338.60
Wells Fargo | Jay Bryson	NA	NA	NA	NA	NA	NA	NA	NA
Consensus	**22,202.73**	**22,445.03**	**22,694.11**	**22,951.57**	**334.68**	**335.96**	**337.65**	**339.85**

PARTICIPANTS	TOTAL LIGHT VEHICLE SALES FOR & DOM. | Mil. of Units (SAAR)				CHAINED PRICE INDEX 2000 | Level			
QUARTER	**26-3**	**26-4**	**27-1**	**27-2**	**26-3**	**26-4**	**27-1**	**27-2**
Board | Michelle Green	15.89	15.97	16.02	15.77	NA	NA	NA	NA
Conf. Board | Yelena Shulyatyeva	NA	NA	NA	NA	NA	NA	NA	NA
Fannie Mae | Mark Palim	16.00	16.40	16.60	16.70	134.60	135.40	136.10	136.8
GSU-EFC | Rajeev Dhawan	15.00	14.69	14.87	15.23	133.30	134.34	135.24	136.1
Moody's Economy | Mark Zandi	15.91	16.02	16.02	16.13	133.72	134.59	135.46	136.3
Mortgage | Mike Fratantoni	NA	NA	NA	NA	NA	NA	NA	NA
National Restaurant Association | Chad Moutray	16.30	16.40	16.40	16.50	NA	NA	NA	NA
Perryman Gp | Ray Perryman	15.88	16.06	16.23	16.43	NA	NA	NA	NA
Royal Bank of Canada | Nathan Janze	15.89	16.13	16.43	16.71	NA	NA	NA	NA
S & P | Satyam Panday	15.68	15.86	15.94	15.93	131.00	131.00	132.00	133.0
US Chamber | Curtis Dubay	NA	NA	NA	NA	NA	NA	NA	NA
Wells Fargo | Jay Bryson	NA	NA	NA	NA	NA	NA	NA	NA
Consensus	**15.81**	**15.94**	**16.07**	**16.23**	**133.16**	**133.83**	**134.70**	**135.5**

PARTICIPANTS	FEDERAL FUNDS RATE %				AAA CORPORATE BOND RATE %			
QUARTER	**26-3**	**26-4**	**27-1**	**27-2**	**26-3**	**26-4**	**27-1**	**27-**
Board | Michelle Green	3.64	3.64	3.64	3.64	5.31	5.22	5.29	5.2
Conf. Board | Yelena Shulyatyeva	3.63	3.63	3.63	3.38	NA	NA	NA	NA
Fannie Mae | Mark Palim	3.63	3.63	3.63	3.38	NA	NA	NA	NA
GSU-EFC | Rajeev Dhawan	3.63	3.52	2.93	2.63	6.28	6.20	6.02	5.8
Moody's Economy | Mark Zandi	3.64	3.58	3.35	3.14	5.40	5.44	5.48	5.5
Mortgage | Mike Fratantoni	NA	NA	NA	NA	NA	NA	NA	NA
National Restaurant Association | Chad Moutray	3.63	3.63	3.38	3.38	5.40	5.44	5.48	5.5
Perryman Gp | Ray Perryman	3.89	4.24	4.06	3.82	5.78	5.92	5.44	4.2
Royal Bank of Canada | Nathan Janze	3.75	3.75	3.75	3.75	NA	NA	NA	NA
S & P | Satyam Panday	3.63	3.63	3.54	3.01	4.59	4.59	4.59	4.5
US Chamber | Curtis Dubay	3.63	3.63	3.38	3.38	5.40	5.40	5.20	5.1
Wells Fargo | Jay Bryson	NA	NA	NA	NA	NA	NA	NA	NA
Consensus	**3.67**	**3.69**	**3.52**	**3.32**	**5.48**	**5.50**	**5.37**	**5.**

UNEMPLOYMENT Civilian % (SAAR)				NON-RESIDENTIAL FIXED INVESTMENT (Bil. of Chained 2017 Dollars)			
26-3	26-4	27-1	27-2	26-3	26-4	27-1	27-2
4.50	4.48	4.46	4.48	3,908.94	3,953.87	3,987.79	4,018.78
4.50	4.60	4.50	4.40	3,879.82	3,930.91	3,965.67	4,002.39
4.50	4.50	4.50	4.40	3,930.00	3,985.00	4,037.00	4,082.00
4.73	4.83	5.00	4.98	3,791.13	3,805.67	3,810.13	3,824.28
4.52	4.55	4.63	4.58	3,883.57	3,902.31	3,912.24	3,927.64
NA	NA	NA	NA	NA	NA	NA	NA
4.30	4.20	4.00	3.80	3,885.00	3,905.00	3,915.00	3,930.00
4.60	4.60	4.50	4.50	3,839.26	3,888.30	3,934.68	3,974.93
4.50	4.40	4.40	4.40	3,883.31	3,920.60	3,949.11	3,978.30
4.40	4.52	4.60	4.60	4,576.81	4,608.66	4,625.64	4,666.20
4.50	4.40	4.30	4.30	3,849.96	3,874.02	3,898.23	3,922.59
NA	NA	NA	NA	NA	NA	NA	NA
4.51	**4.51**	**4.49**	**4.44**	**3,946.54**	**3,980.05**	**4,005.30**	**4,034.26**

INDUSTRIAL CAPACITY UTILIZATION (SAAR)				MONEY SUPPLY M2 Bil. of $, Level (SAAR)				PRIVATE HOUSING START TOTAL Mil. of Units (SAAR)			
26-3	26-4	27-1	27-2	26-3	26-4	27-1	27-2	26-3	26-4	27-1	27-2
NA	NA	NA	NA	22,977.73	23,101.40	23,240.58	23,409.12	1.38	1.38	1.42	1.42
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	1.32	1.31	1.32	1.33
73.70	73.21	73.10	73.47	NA	NA	NA	NA	1.26	1.22	1.24	1.26
75.20	75.24	75.27	75.39	23,393.33	23,750.62	24,100.29	24,467.97	1.41	1.40	1.39	1.37
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
76.10	76.10	76.10	76.10	23,395.00	23,750.00	24,100.00	24,470.00	1.42	1.42	1.43	1.45
75.60	75.80	76.00	76.30	23,160.54	23,433.21	23,706.50	23,956.66	1.21	1.18	1.25	1.27
NA	NA	NA	NA	NA	NA	NA	NA	1.45	1.47	1.48	1.50
NA	NA	NA	NA	23,325.88	23,571.28	23,864.26	24,124.17	1.35	1.37	1.35	1.34
NA	NA	NA	NA	23,711.00	24,020.00	24,211.00	24,545.00	NA	NA	NA	NA
NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
75.15	**75.09**	**75.12**	**75.32**	**23,397.15**	**23,705.02**	**23,996.41**	**24,312.76**	**1.34**	**1.34**	**1.35**	**1.36**

Looking ahead, Consensus projects private housing starts to rise from 1.34 million units in Q3 2026 to 1.36 million units in Q2 2027, a 1.26% increase. Wells Fargo expects residential investment to remain a drag on economic growth over the next several quarters. Housing affordability continues to be a major constraint, and the recent increase in mortgage rates, driven in part by concerns over the Iran conflict's impact on inflation and monetary policy, is likely to keep homebuying activity subdued. Building permits have generally trended lower this year, pointing to slower single-family construction as builders adjust to softer demand. While multifamily construction may receive modest support from easing financing conditions, overall residential activity is expected to remain weak. Some improvement in home renovation spending is emerging, but low housing turnover and higher material costs continue to pose challenges.

According to Consensus forecasts, industrial capacity utilization is expected to edge up from 75.15% in Q3 2026 to 75.32% in Q2 2027, while nonresidential fixed investment is projected to grow by 2.20% over the same period.

Wells Fargo sees pockets of strength in nonresidential structures investment but expects overall spending to remain modest. Elevated interest rates and higher energy costs continue to weigh on new project starts. However, rising oil prices should support energy-related investment, while AI-driven infrastructure expansion and reindustrialization efforts are expected to boost spending on data centers, power generation, and manufacturing facilities. Even so, weak commercial construction activity suggests that overall structures investment will continue to grow at a relatively slow pace.

INTEREST, CREDIT, AND THE FED: DEFENSE SPENDING DRIVING BOND YIELDS IN US & EUROPE, CENTRAL BANKS KEEP RATES HIGH TO FIGHT INFLATION

Consensus forecasts anticipate a gradual easing path, with the federal funds rate declining from 3.67% in the third quarter of 2026 to 3.32% by the second quarter of 2027. Similarly, the AAA corporate bond rate - 5.56% in May - is projected to edge down from 5.48% in Q3 2026 to 5.14% in Q2 2027.

Dhawan expects that sustained defense spending, along with plans to increase military expenditures in both the United States and Europe, will place upward pressure on long-term bond yields. At the same time, the world's major central banks remain firmly focused on combating inflation, reinforcing a higher-interest-rate environment. According to Dhawan, this combination is likely to create headwinds for the housing market and small-business growth, as higher borrowing costs restrict access to credit and dampen investment through the credit channel.

Wells Fargo have pushed their expectation for the Fed's next cut to Q4 and now look for the FOMC to lower its target range by 25 bps in October and December, still followed by an extended hold at 3.00%-3.25%. They continue to see the next policy move as a cut, rather than a hike. Their yearend 10year Treasury yield forecasts remain unchanged at 4.25% in 2026 and 4.30% in 2027.

CONCLUSION: US ECONOMY ABLE TO WITHSTAND OIL SHOCKS WHILE EUROPE & JAPAN FACE STAGFLATION

Dr. Perryman believes that there is underlying strength in the US economy, but tariffs, worker displacements, and other unforced errors are limiting the capacity of business activity to reach its full potential.

Despite recent market volatility and renewed geopolitical and trade uncertainties, Wells Fargo notes that the initial flow of second-quarter economic data suggests that growth has not materially deviated from its path. As a result, they continue to view the economy as expanding at a moderate, but sustainable, pace.

Dhawan notes that the United States is far less reliant on Middle Eastern oil supplies than it was in the 1970s. In addition, major nations have released oil from their Strategic Petroleum Reserves (SPR), and the U. S. Treasury has eased restrictions on purchases of Russian and Iranian oil. Unlike the 1970s, there are also no significant barriers preventing markets from reaching a clearing price; policymakers are not resorting to rationing, coupons, or other controls that distorted energy markets during that era.

Regarding the global macroeconomic outlook, Wells Fargo believes the environment has shifted more decisively toward a stagflation scenario, with rising inflation pressures occurring alongside slower economic growth. In Europe, they state that the European Central Bank (ECB) appears increasingly likely to raise interest rates in June, even if geopolitical tensions do not escalate further.

Wells Fargo also observes that the Bank of Japan (BoJ) is becoming more concerned that the war-driven energy shock could produce stagflation dynamics. Higher energy costs may lead to broader price pass-through effects and secondary inflation pressures, while economic growth faces increasing headwinds from a deteriorating terms-of-trade environment.

Similarly, the Bank of Canada (BoC) has emphasized the growing two-sided risks to its outlook. While higher energy prices present upside risks to inflation, the possibility of additional U. S. trade restrictions could weigh on economic growth. In the United Kingdom, Wells Fargo believes that the Bank of England (BoE) is also likely to tighten monetary policy, with a rate hike appearing increasingly probable at its upcoming policy meeting.

According to the U. S. Census Bureau and the U. S. Bureau of Economic Analysis, the U. S. goods and services deficit decreased by $213.5 billion, or 49.1 percent, from the same period in 2025. Exports rose by $128.2 billion, or 11.3%, while imports fell by $85.3 billion, or 5.5 %.

Dhawan notes that Asia is the United States' largest trading partner, accounting for roughly $2.0 trillion in trade. The key partners in this region include China, Taiwan, Japan, South Korea, Vietnam, India, and Thailand. Many of these economies rely heavily on the Middle East for energy supplies, including crude oil, LNG, and LPG.

As a result, Dhawan expects higher import prices for basic goods and broader supply-chain disruptions. Potential effects could range from fertilizer shortages, which may eventually push food prices higher, to tighter helium supplies, which could affect semiconductor production in Taiwan. Europe, which accounts for about $1.4 trillion in trade with the United States and is already facing economic weakness, will likely be the next region to feel the strain.

For fiscal policy, Wells Fargo has modestly increased its federal budget deficit forecast to $1.95 trillion in FY 2026 and $2.00 trillion in FY 2027, up from an estimated $1.78 trillion in FY 2025. They expect the wider deficits to stem from a combination of softer tariff revenues following the rollback of IEEPA tariffs, potential refund payments to businesses, and the possibility of a supplemental defense spending package related to the ongoing conflict in the Middle East.

Although the likelihood of additional defense spending has increased, Wells Fargo expects any expansion to be relatively modest and phased in over time, limiting its near-term impact on the economy in 2026. Overall, they believe fiscal policy will not materially alter the economic outlook and continue to view Federal Reserve policy as the primary driver of interest rates.

—Send Comments to: JBF@ibf.org