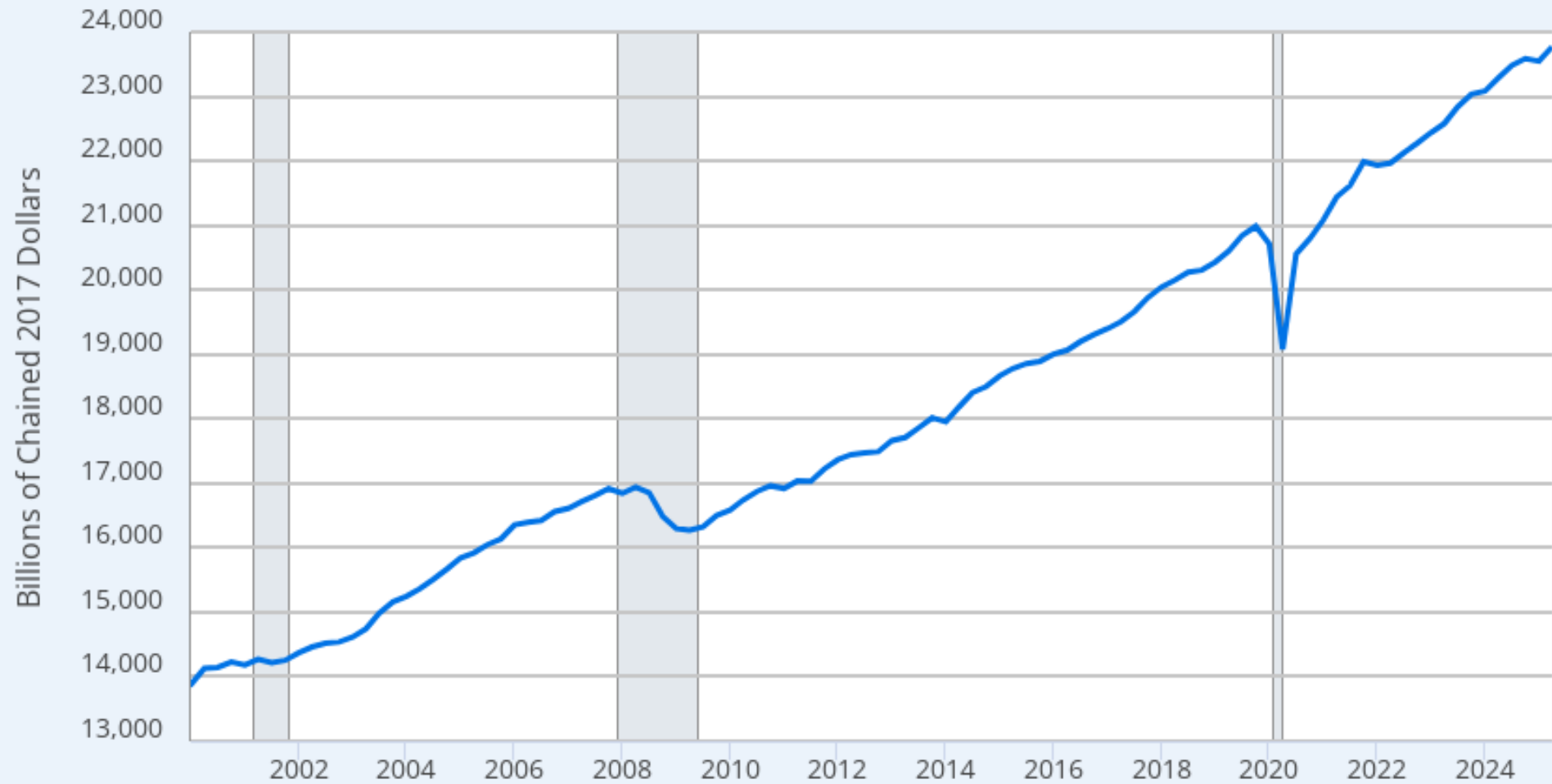


Economic Outlook 2026: The Known Unknowns

Dr. Steven Allen
Department of Economics
NC State University



— Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis via FRED®

Shaded areas indicate U.S. recessions.

myf.red/g/1MEKv


FRED  — Real Gross Domestic Product

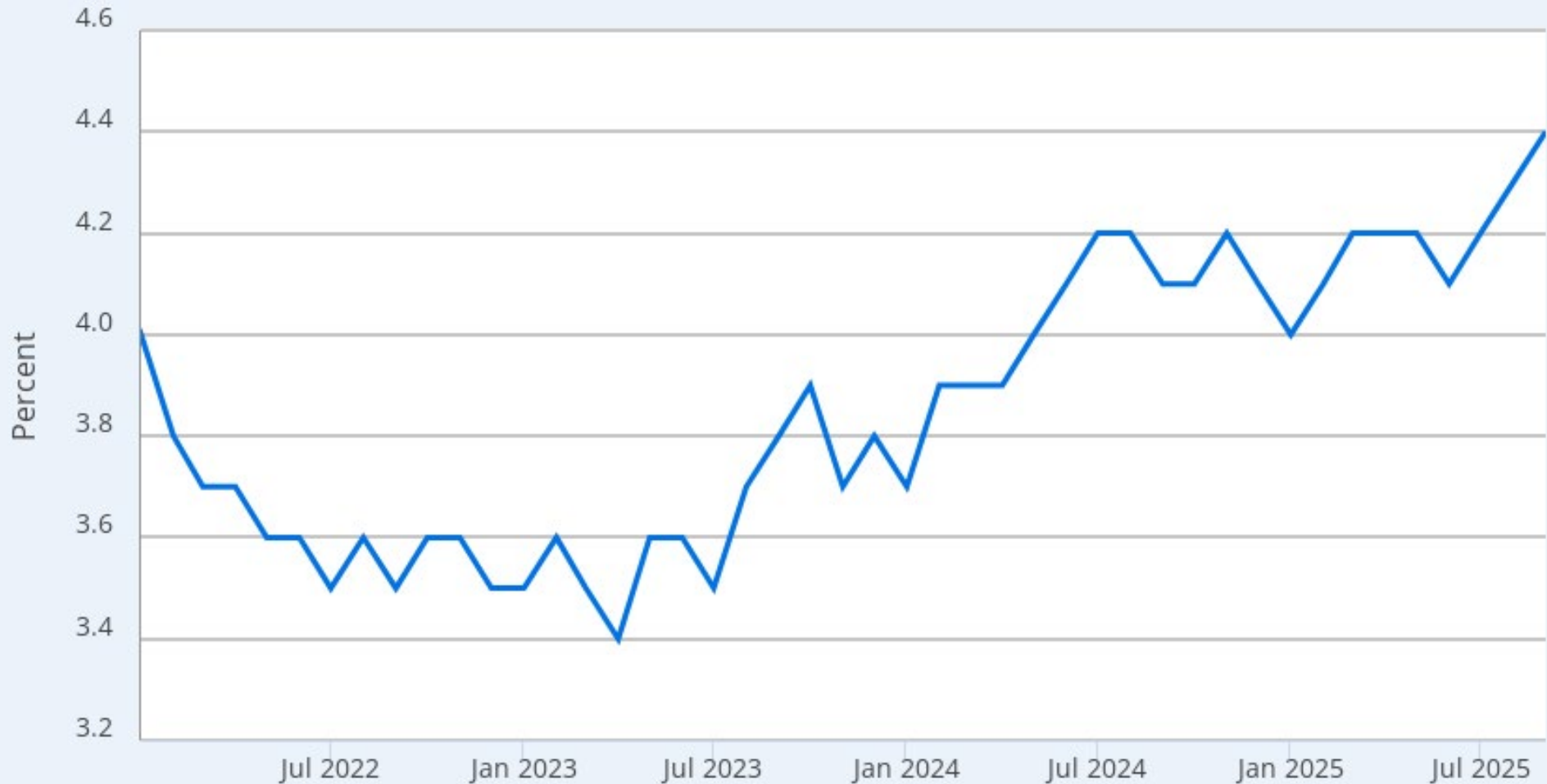


Source: U.S. Bureau of Economic Analysis via FRED®

Shaded areas indicate U.S. recessions.

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FRED  — Unemployment Rate



Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

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Real GDP growth 2025

	2025:1	2025:2
Real GDP	-0.6	3.8
Consumption	0.6	2.5
Investment		
-- Residential	-1.0	-5.1
-- Fixed	7.1	4.4
-- Intellectual property	6.5	15.0
Exports	0.2	-1.8
Imports	38.0	-29.3
Federal government	-5.6	-5.3
State & local	1.9	3.1

Source: US Bureau of Economic Analysis

POLLING QUESTION

Coping with
uncertainty

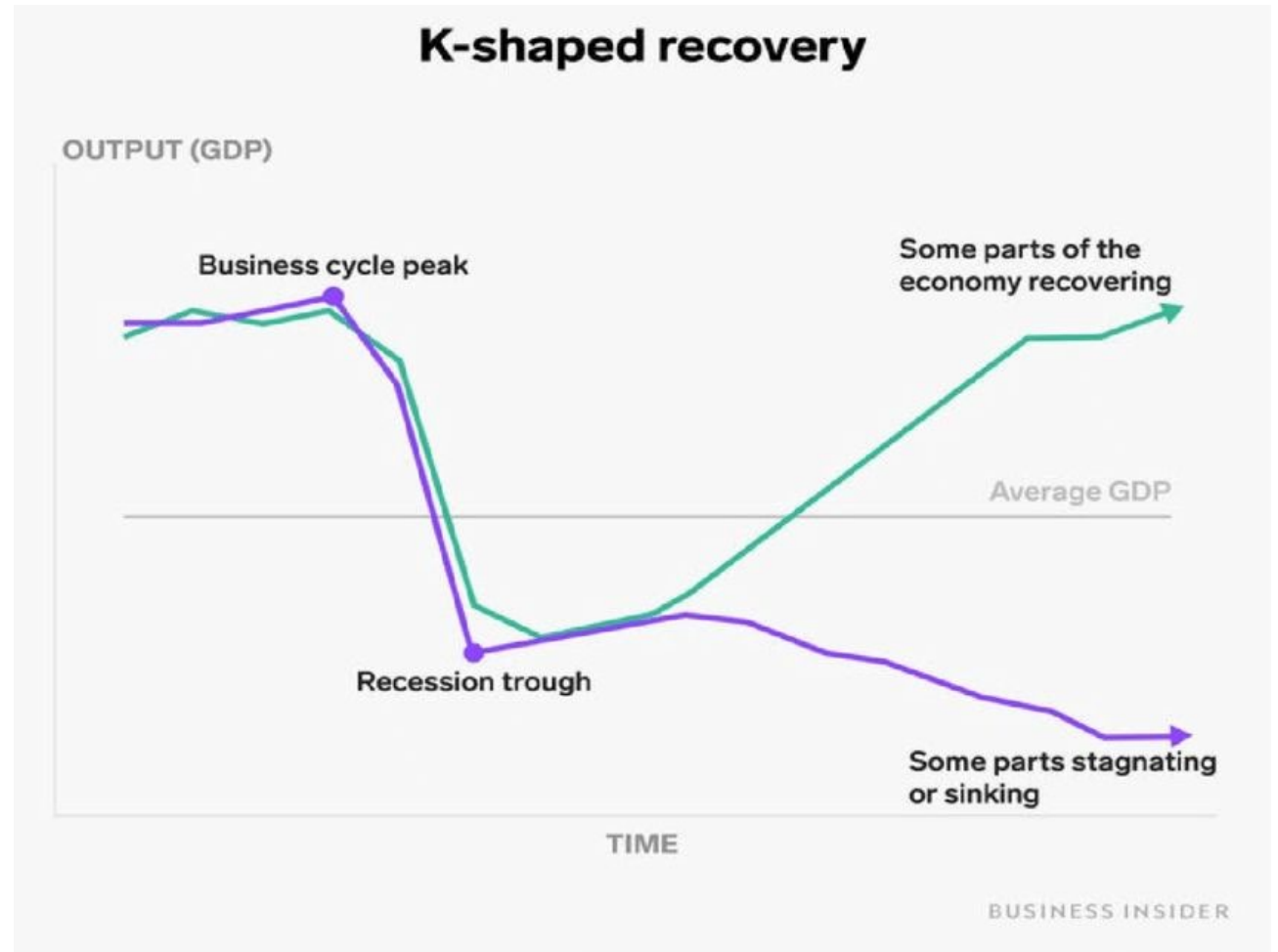


Source: www.policyuncertainty.com

Consumption:
finding the best
value



Consumption: K-shaped recovery





Consumption:
K-shaped
recovery

New York Times Headline
December 1:
*People Are Ordering
Smaller Pizzas and Fewer
Toppings. What Does That
Tell Us?*



FRED  — S&P 500

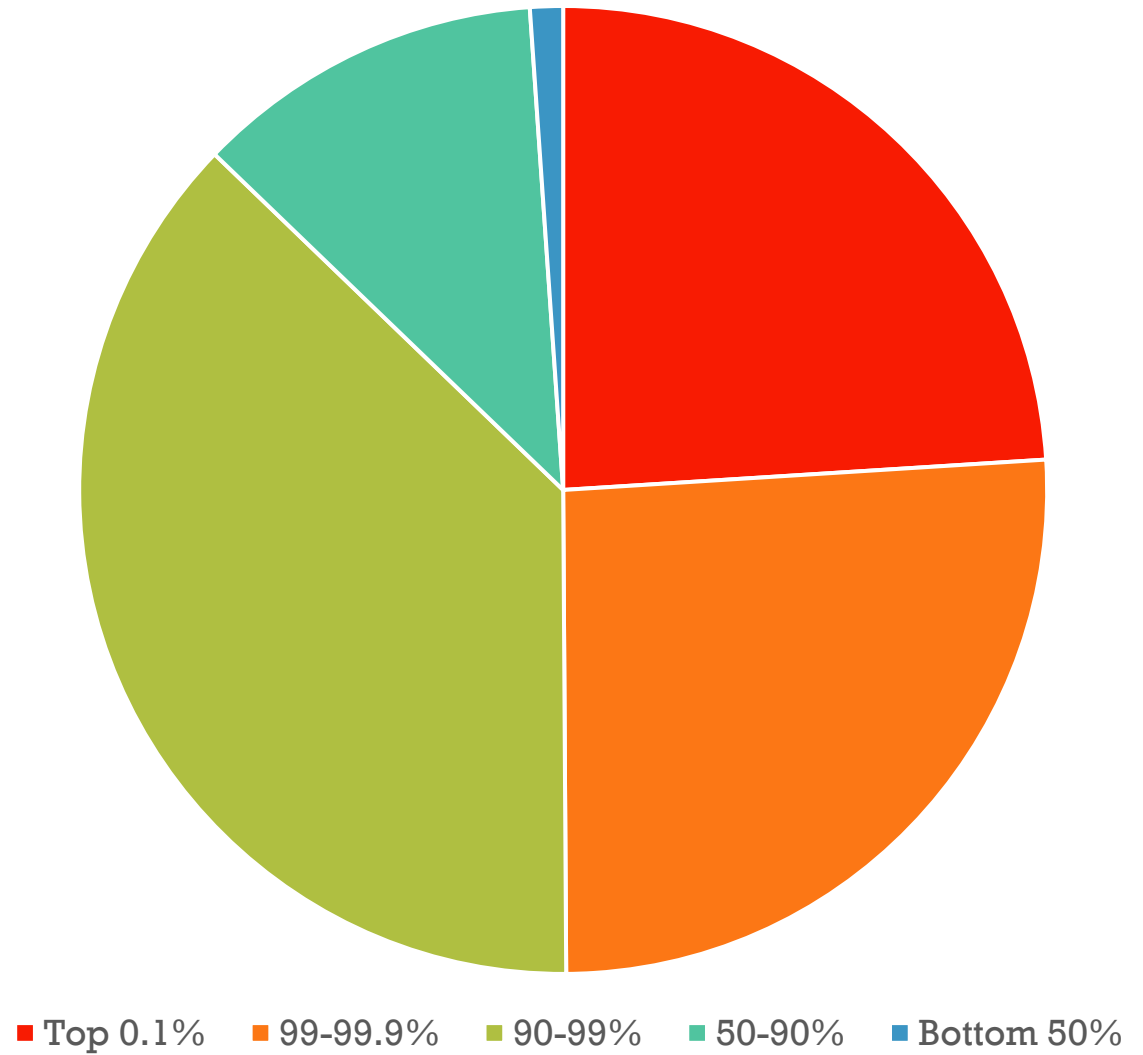


Source: S&P Dow Jones Indices LLC via FRED®

Shaded areas indicate U.S. recessions.

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Equity ownership by wealth percentiles





— Delinquency Rate on Consumer Loans, All Commercial Banks



Source: Board of Governors of the Federal Reserve System (US) via FRED®
Shaded areas indicate U.S. recessions.

What direction
will consumption
take?

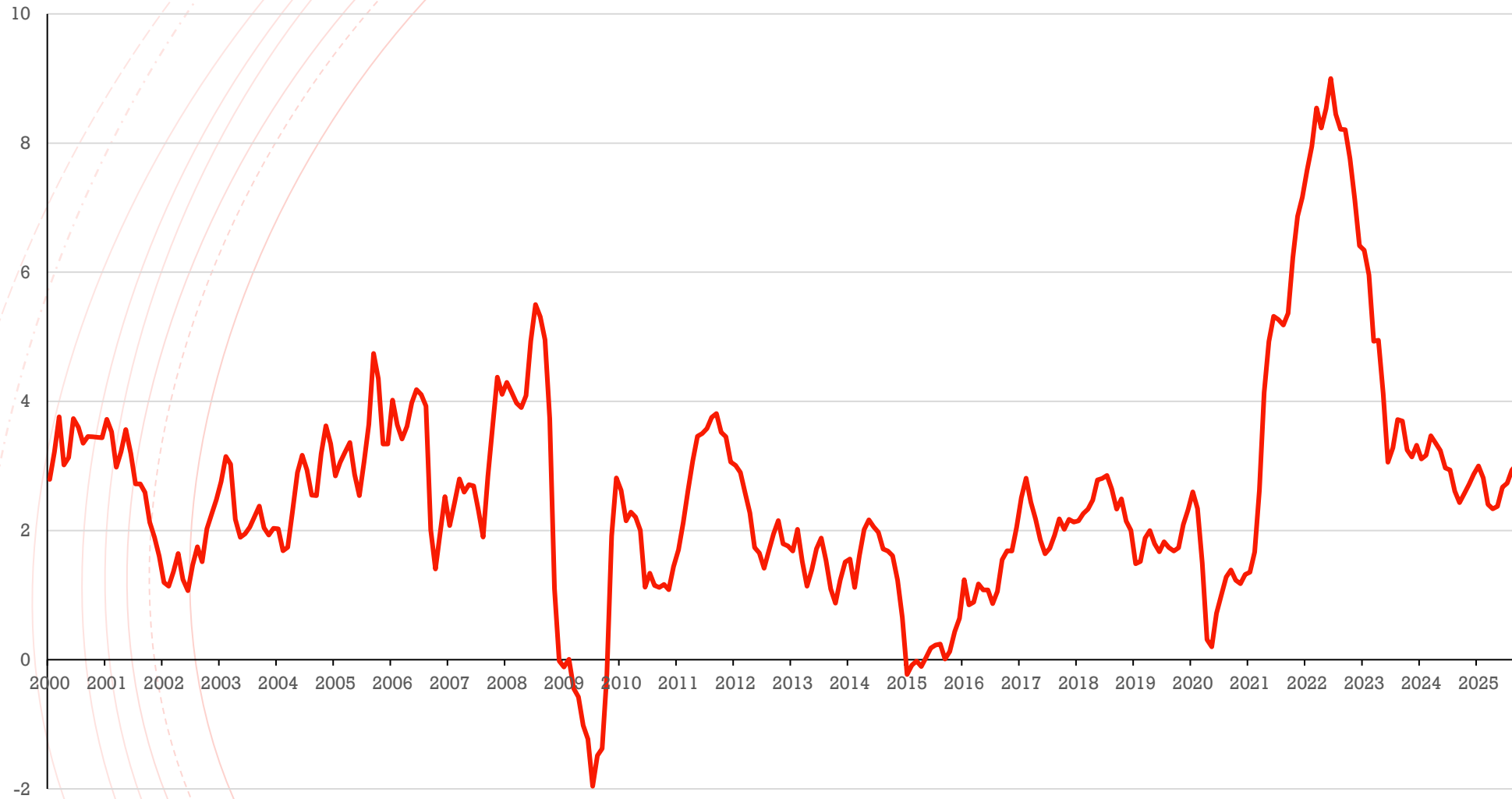
We can reasonably expect

- Personal income tax cuts and refunds
- Lower interest rates
- Student loan repayments to resume

Hard to tell whether

- Prices rise faster than income
- Unemployment rises
- Stock prices continue rising

Percentage change in Consumer Price Index



Source: US Bureau of Labor Statistics via FRED

Where inflation has hit hardest



Why inflation stays above two percent

- **Consumer demand remains strong**
- **Corporate pricing analytics**
- **Expectations of consumers and companies**
- **Government policy**
 - **Tax cuts**
 - **Tariffs**
 - **Immigration**

Will prices
fall?



POLLING QUESTION

Labor market trends: the good news



- **Unemployment relatively low**
- **Employment growing faster than expected**
- **Wage growth exceeds inflation**

A more careful
look at the labor
market

	Most recent	A year ago
Layoff rate (Nov)	2.09%	2.05%
Quit rate (Aug)	1.9	2.0
New hire rate (Aug)	3.2	3.3
Open jobs (Aug)	4.3	4.6

Sources: Chicago Fed, US BLS JOLTS survey

Declining labor force participation



- Boomers retiring
- School enrollment
- Decline among prime age males with fewer years of schooling
 - Disability
 - Skills

Immigration enforcement

- **Pew Research Center estimates immigrant population declined 1.4 million in first half of 2025**
- **Number of deportations in 2025 (527k near end of October) will be about the same as in 2024 (770k)**
- **Anecdotal evidence of labor shortages in agriculture, construction, hospitality**
- **ICE budget to triple through FY2027**



What will AI do?

AI impact

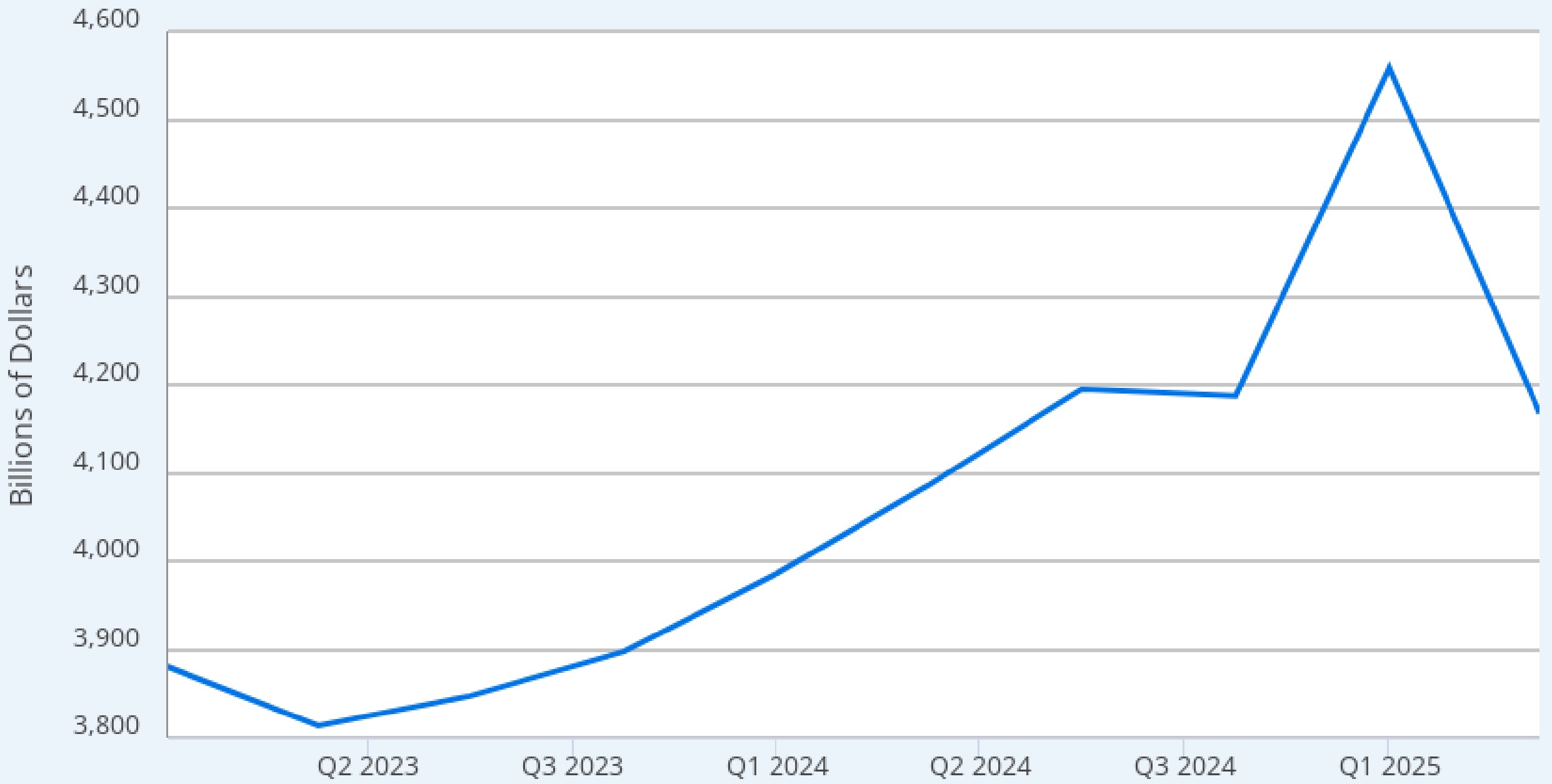
- **AI: substitute or complement?**
- **Goldman Sachs estimates 6-7% of current jobs at risk, but many will be absorbed by new jobs being created**
- **Main impact so far in large tech, finance companies**

BUT

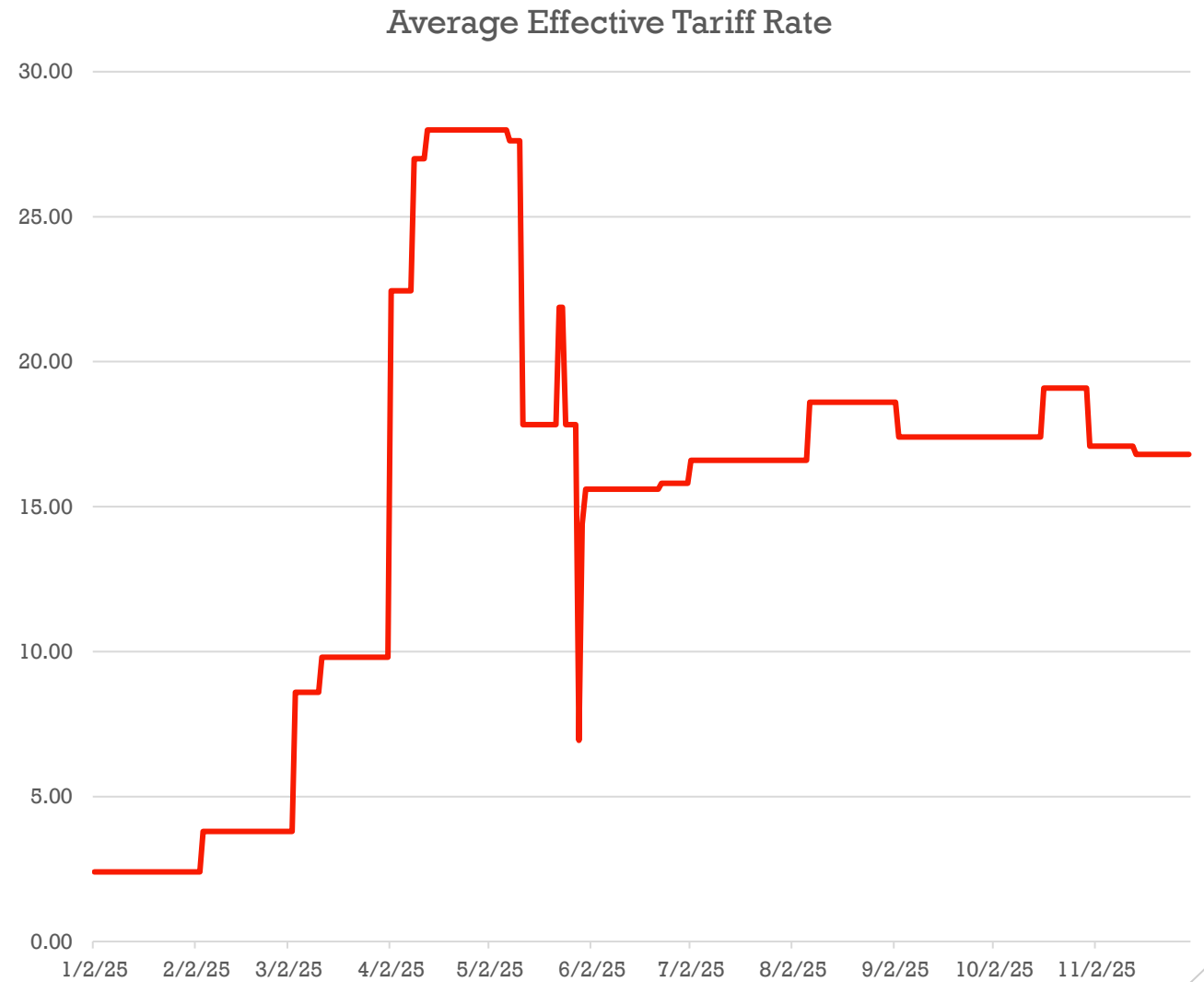
- **Large layoffs announced by Amazon, Microsoft, Verizon, Novo Nordisk, Procter & Gamble**
- **High unemployment among recent college grads**

What about
trade?





Average Effective Tariff Rate



Source: Yale Budget Lab

Likely tariff impact

Yale Budget Lab predicts

1. Prices rise 1.2 percent, costing average household \$1700
2. GDP decreases \$90 billion
3. Unemployment up by 0.6 percentage points
4. Manufacturing growth < shrinkage in agriculture, construction, mining & excavation

BUT Supreme Court has yet to weigh in

What CEOs are saying

Wall Street Journal 11.22.25

Executives are starting to chill out about tariffs after a year of anxiety. The real tariffs companies pay have turned out to be lower than the headline figures. The U.S. has meanwhile hammered out new trade agreements. “We believe that the worst of the tariff and economic disruptions to our businesses are now behind us.”

John Cochrane blog, quote from CEO of a large retailer

We all believe the American consumer is going to be smacked by raised prices everywhere. There is a major shock to retail and the economy coming...it's just masked right now because we are selling older inventory, and trying to hold prices for holiday.

POLLING QUESTION

What about the
Fed and interest
rates?



FRED



Federal Funds Effective Rate



Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

myf.red/g/1NDvk

The background features several sets of curved lines in the top-left and bottom-right corners. Some lines are solid and light gray, while others are dashed and light gray, creating a modern, abstract design.

Impact of Fed actions on interest rates

- **Borrowing costs for households and small businesses**
- **Capital gains or losses for bond holders**
- **Yields on savings accounts, CDs and money market funds**

POLLING QUESTION

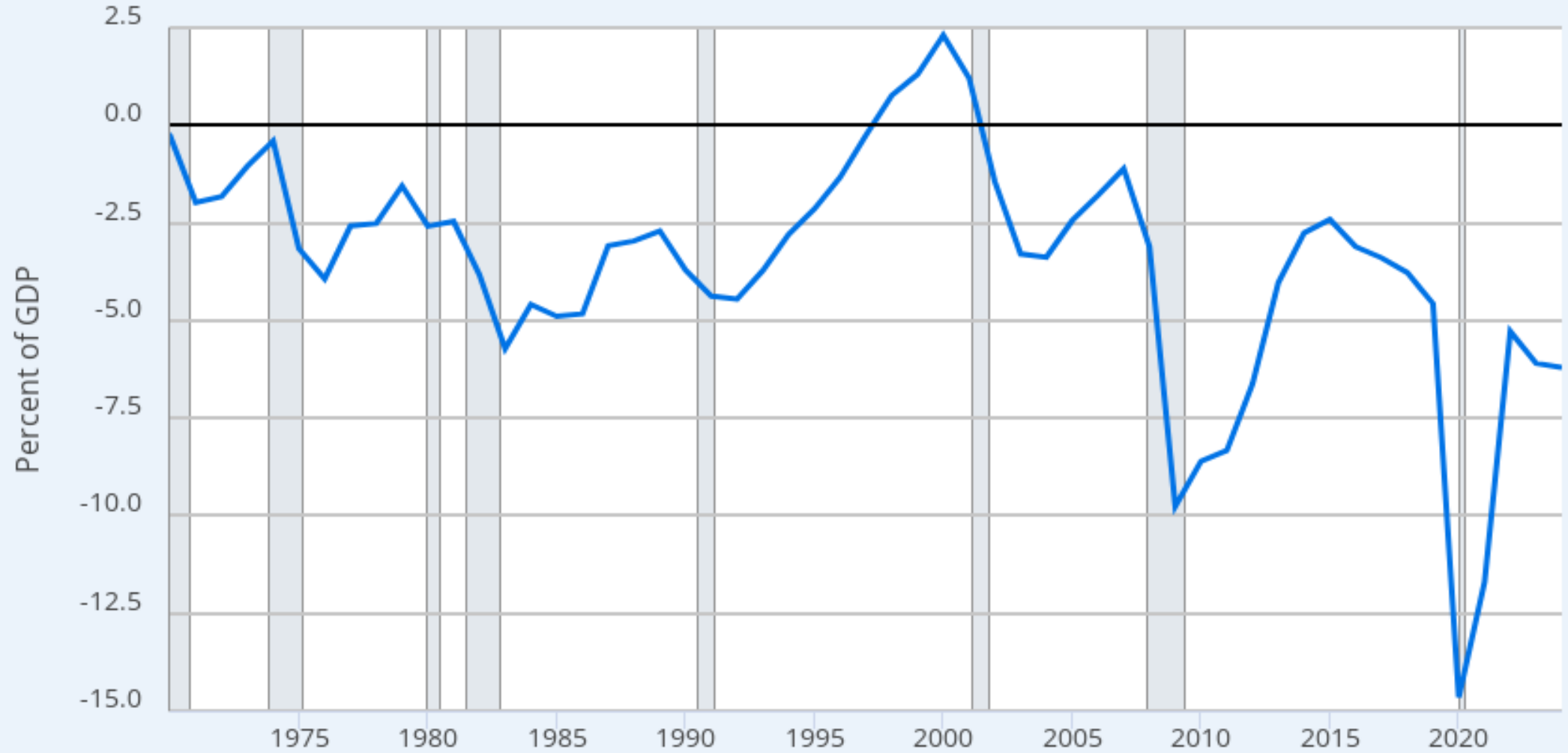
Looking ahead to 2026

- Federal funds rate target range 3.75 to 4.00 percent
- Many in financial community expect rate to decrease to 3.00 percent
- Depends on progress on
 - Inflation,
 - Composition of the Fed's Board of Governors
 - Unemployment
- Any Fed action has “long and variable lags”

FRED



Federal Surplus or Deficit [-] as Percent of Gross Domestic Product



Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®

Shaded areas indicate U.S. recessions.

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A look into the
future

So why should we care?

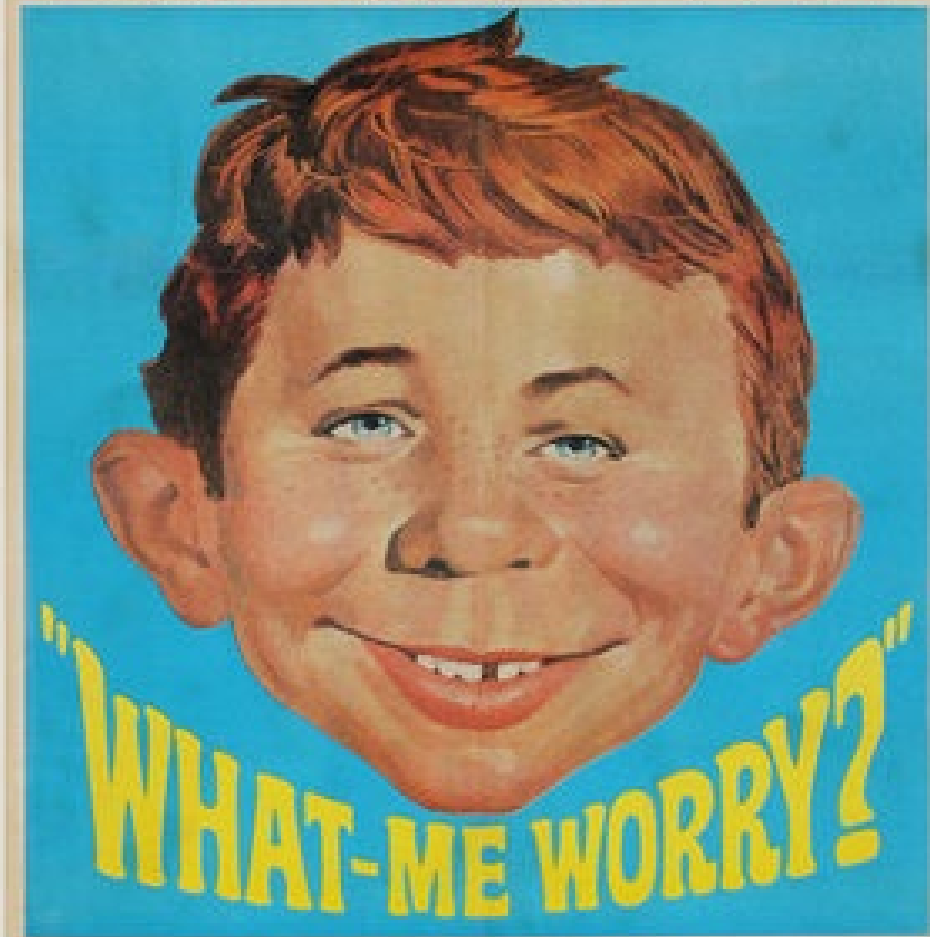
- 1) Impact on interest rates
- 2) Crowding out of private investment in capital markets
- 3) Future generations face higher taxes, reduced government services
- 4) Future access to credit markets during emergencies

VOTE ★ MAD ★ VOTE

ALFRED E. NEUMAN

FOR

PRESIDENT





Consensus forecast for 2026

- GDP growth 1.9 to 2.2 percent
- Inflation 2.5-3.0 percent
- Unemployment 4.2 to 4.5 percent
- Federal funds rate 3.0 to 3.5 percent

What makes NC
different?

- Strong population growth and in-migration
- Attractive to corporate investment
- Diversified economy (tech, healthcare, education, advanced manufacturing)
- Robust housing demand supporting local revenues



Challenges ahead in North Carolina

- No state budget
- Federal COVID-era transfers tailing off
- Inflation strains budgets for capital projects
- Loss of research funding
- Difficulty filling service jobs

