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# **REAL INCOMES WILL DROP THIS SUMMER...** ...CORE INFLATION WILL COOL IN Q4, ENABLING RATE CUTS

## **US CHARTBOOK, MAY 2026**

DATA AS AT MAY 19  
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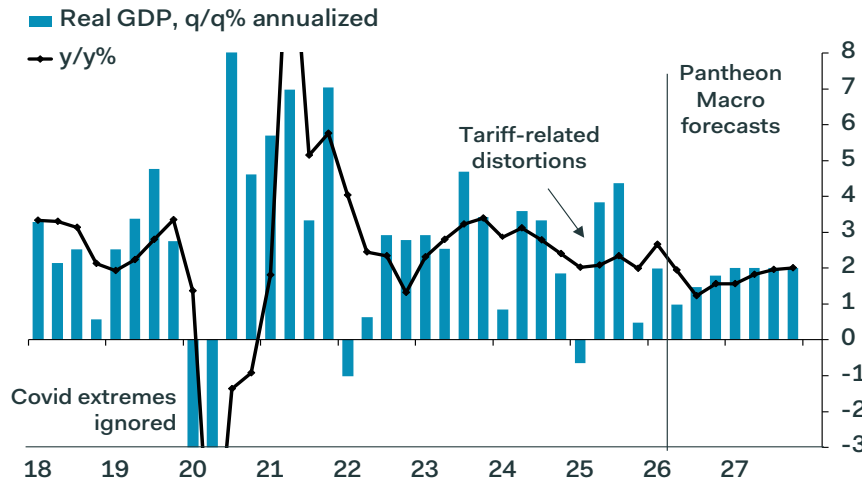


## Summary

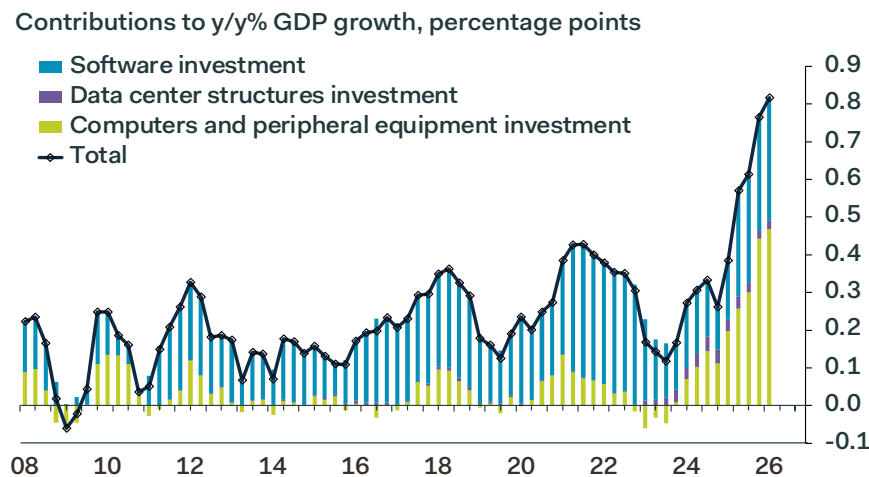
- **The economy has slowed only marginally this year because soaring individual tax refunds, due to the OBBBA, have enabled households to cope with higher gas prices, and fears of supply chain disruptions later this year have sent goods-facing sectors into overdrive.** Nonetheless, we expect GDP growth to slow to 1½% in Q2 and 1% in Q3, from 2.0% in Q1.
- The recent pick-up in payrolls has been led by retailers, wholesalers and transportation firms, which have benefited from households spending tax refunds and businesses accumulating inventory. **But the best indicators of future hiring point to a renewed slowdown in employment growth this summer.** The hiring intentions index of the NFIB survey has fallen sharply since the start of the year, consistent with first estimates of payrolls of about 75K ahead, likely around zero after revisions. In addition, the hiring intentions indexes of the regional Fed business surveys deteriorated in April, while both the Indeed and LinkUp measures of openings have dropped since energy prices jumped, and consumers report that jobs are harder to find than at the start of this year. Accordingly, we expect first estimates of payrolls to average 75K over the rest of this year, resulting in a steady rise in the unemployment rate to 4.7% by December, from 4.3% in April.
- **Wage growth is slowing quickly following last year's increase in labor market slack.** The Atlanta Fed's Wage Growth Tracker, which monitors individuals over time and therefore is free of compositional distortions, shows year-over-year growth in whole-economy wages slowed to 3.6% in April, from 4.1% in March, and now is well below last year's 4.2% average. In addition, the expected wage indexes of both the regional Fed and NFIB surveys were lower in April than in February, before the Iran conflict began, suggesting workers are unlikely to extract bigger wage rises in response to the jump in energy prices.
- **Meanwhile, headline CPI inflation rose to 3.8% in April, from 3.3% in March, and we expect it to rise to 4.1% in May.** The month-average level of gas prices likely rose a further 7% in May, while prices for food at home probably continued to rise at an above-trend pace.
- **As a result, the near-term outlook for households' real after-tax incomes is bleak.** The flow of refunds has slowed to a trickle this month, leaving households exposed to higher energy prices. The window of opportunity for fresh fiscal support to households before the midterms has closed, and the chances of more tax cuts after the midterms look very low, given opinion polls point to the Republicans losing the House, at least, in the November elections.
- The stock of households' savings is still high relative to incomes and the recent rebound in stock prices has restored a positive "wealth effect". In addition, the stock of consumer credit is low relative to incomes, and banks have become much more willing to lend over the last year. But savings are merely at their long-run average for low-to-mid earners, and interest rates remain too high for a major credit expansion. **We therefore look for growth in consumption to slow to 1% in Q2, from 1.6% in Q1, and then to a mere ½% pace in Q3.**
- Households, however, should start to see some relief in the form of lower inflation later this year. Lower wage growth and sluggish demand will facilitate a renewed decline in services inflation, while the recent stabilization of new rents, driven by the sharp slowdown in population growth, will slow CPI shelter inflation. Core goods inflation likely will be little changed this year, as the boost from the jump in energy prices will be offset by the anniversary of last year's tariff-related price rises being met. **Accordingly, we think core PCE inflation will drop to 3.0% by the end of this year, from 3.2% currently.**
- Markets see a 50% chance of the FOMC hiking rates before the end of this year. But the Committee has shown it is very responsive to small rises in unemployment, and fiscal policy is unlikely to lend a helping hand this time. In addition, we think Mr. Warsh will try to steer the Committee to take a more forward-looking approach to setting monetary policy. High inflation will be less worrying once the near-term momentum has faded later this year. **Accordingly, we expect the FOMC to ease by 75bp, with the first 25bp in December, and two further rate cuts in the first half of 2027.**



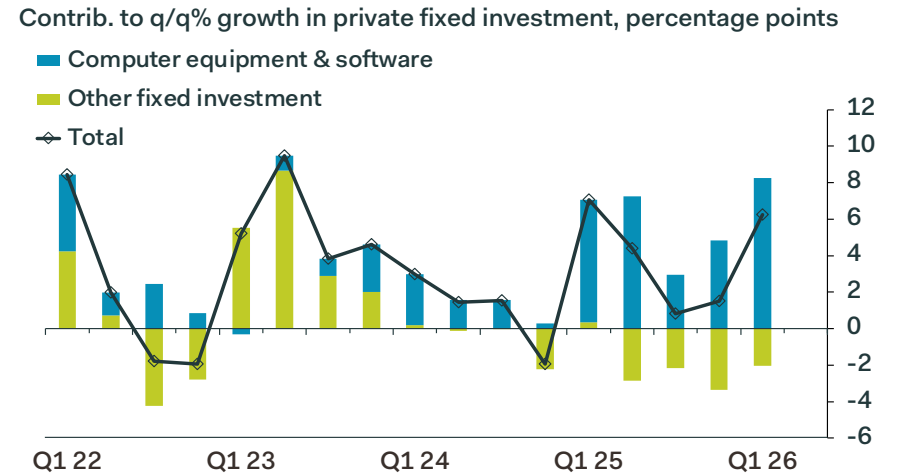
**1. THE ECONOMY HAS LOST MOMENTUM OVER THE LAST COUPLE QUARTERS**



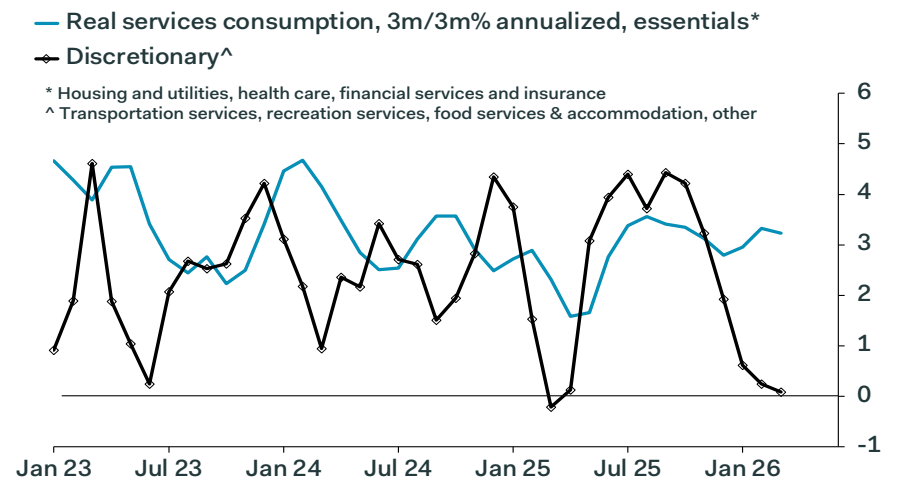
**2. AI-RELATED INVESTMENT HAS SURGED, BUT SO TOO HAVE IMPORTS**



**3. INVESTMENT OUTSIDE THE TECH SECTOR STILL IS VERY WEAK**

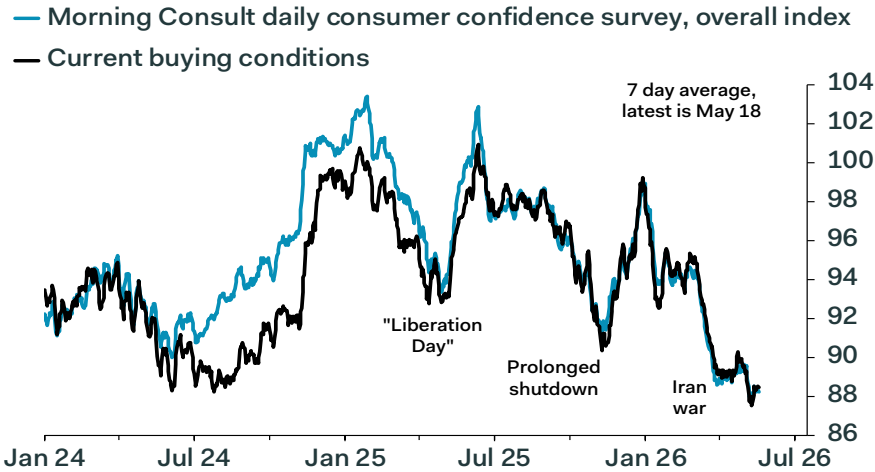


**4. HOUSEHOLDS' DISCRETIONARY SPENDING HAS STAGNATED**

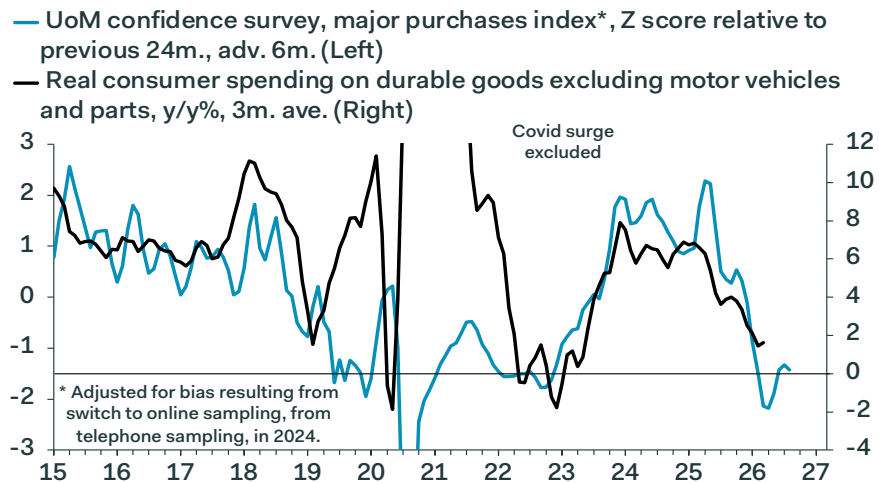




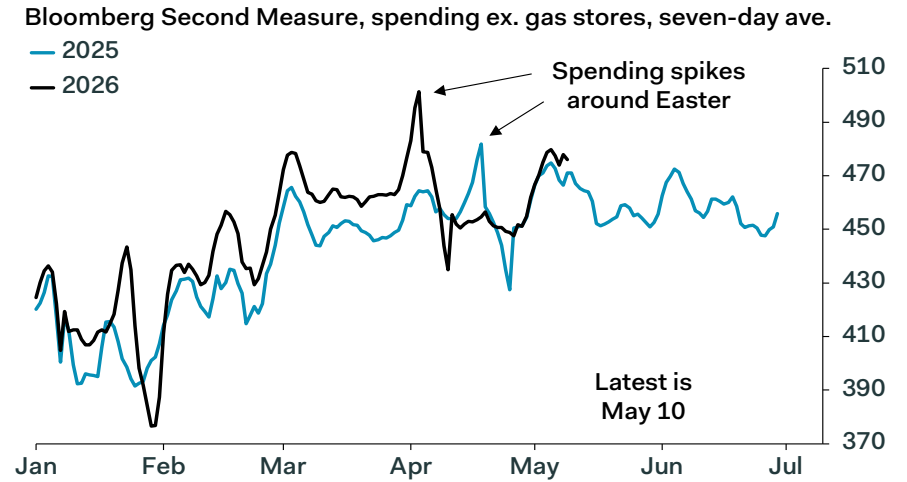
**5. CONSUMERS' CONFIDENCE IS STILL LOW, DESPITE CEASEFIRE WITH IRAN**



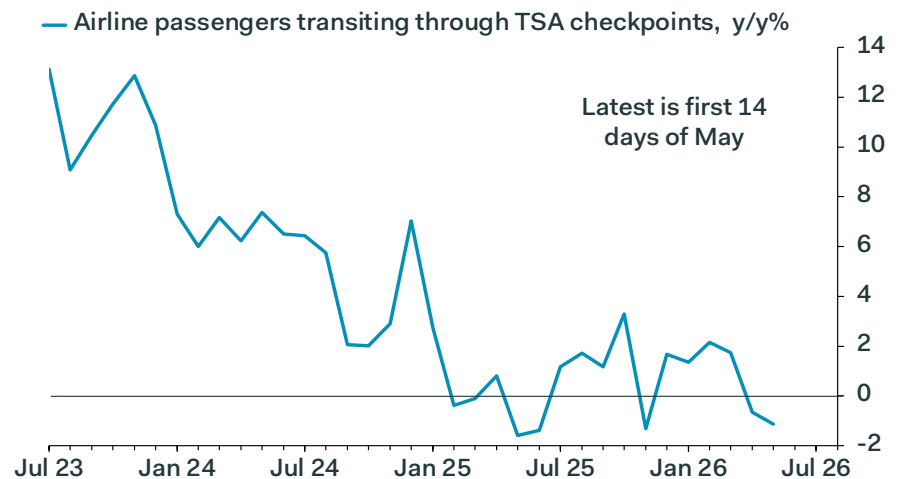
**6. BIG-TICKET PURCHASE PLANS ARE VERY WEAK**



**7. NON-GAS SPENDING IS NO LONGER RISING OVER-YEAR**

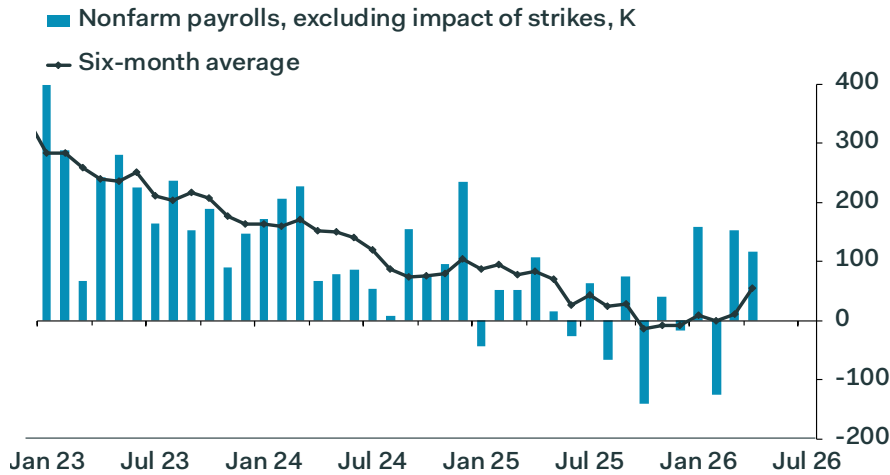


**8. AIRLINE PASSENGER NUMBERS ARE FALLING AGAIN**

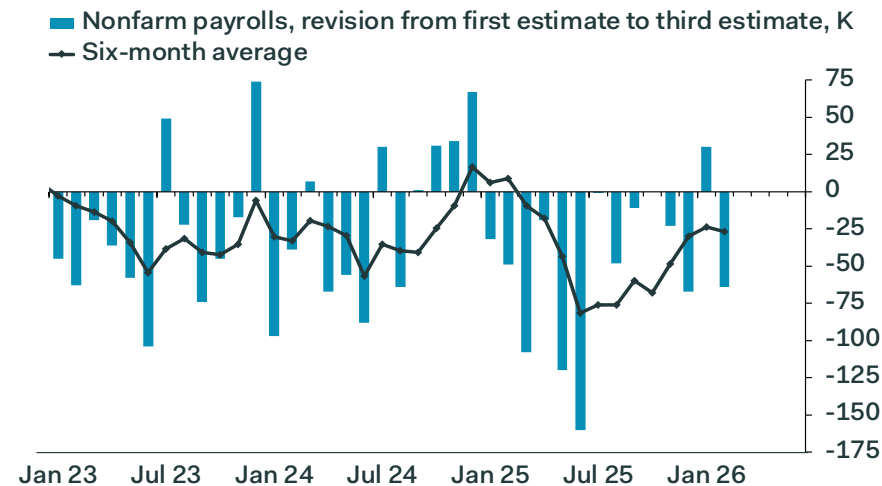




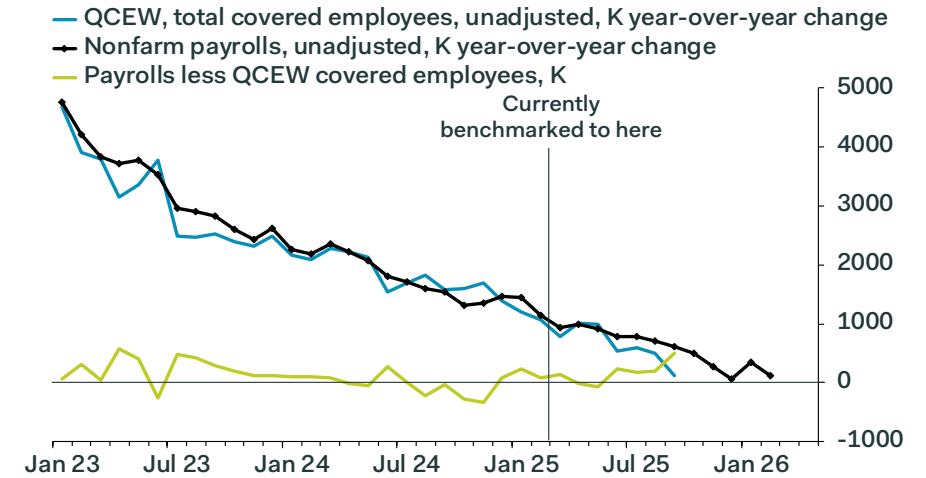
9. FAR TOO SOON TO CONCLUDE THE TREND IN PAYROLLS IS IMPROVING...



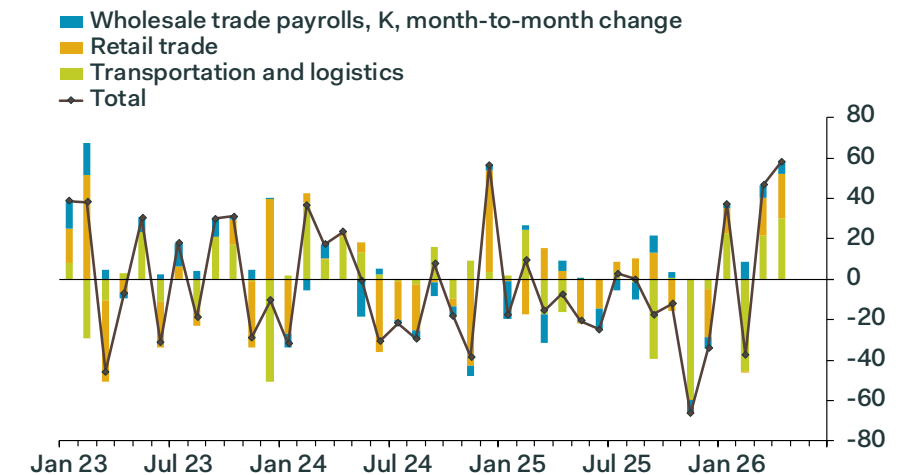
10. ...LATE RESPONSES LIKELY WILL REVEAL A WEAKER PICTURE



11. QCEW DATA POINT TO MORE NEGATIVE BENCHMARK REVISIONS AHEAD

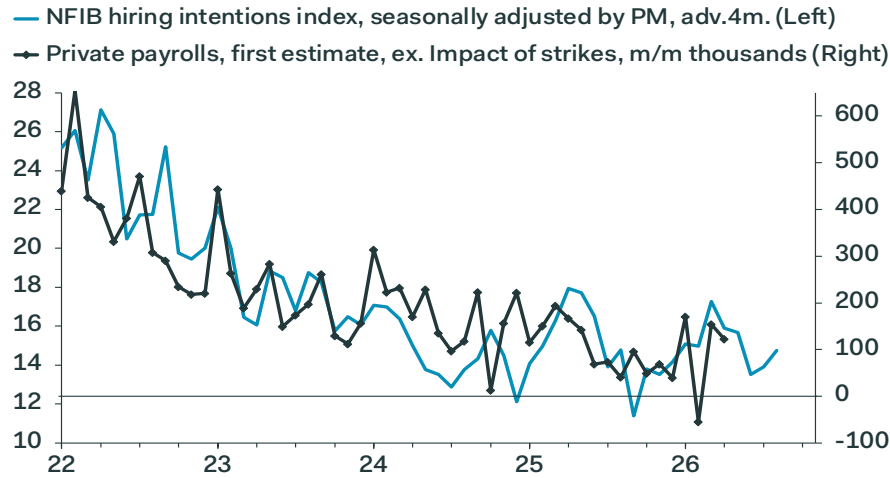


12. THE REBOUND IN JOBS AT GOODS-SUPPLYING FIRMS WILL UNWIND

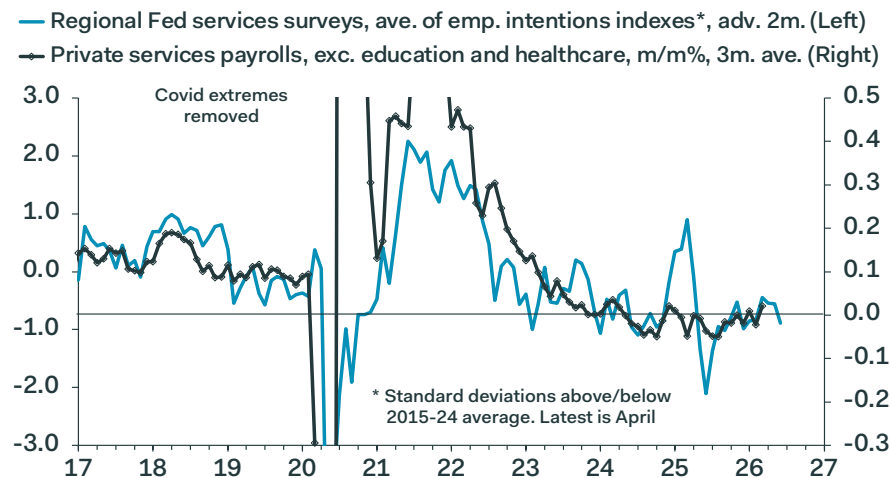




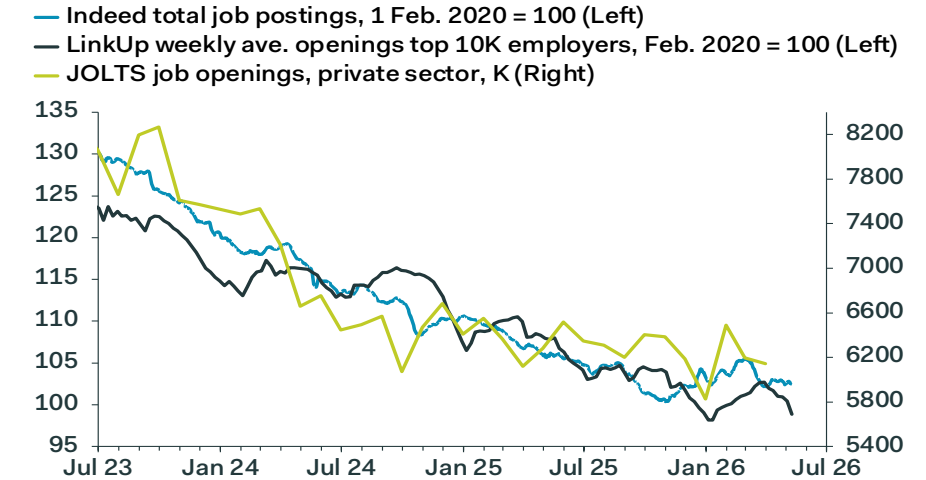
13. THE NFIB HIRING INTENTIONS INDEX REMAINED WEAK IN APRIL



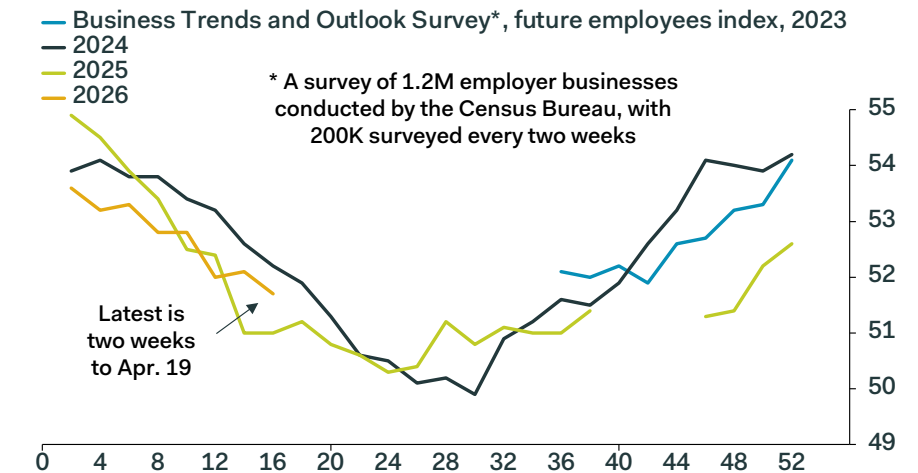
14. HIRING INTENTIONS IN THE REGIONAL FED SURVEYS STILL SOFT



15. JOB POSTINGS HAVE FALLEN SINCE THE IRAN WAR BEGAN



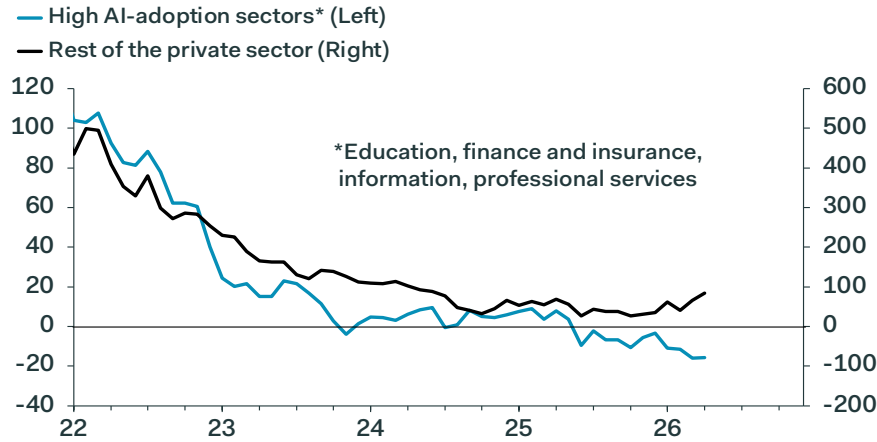
16. BTOS EMPLOYMENT INTENTIONS STILL WORSE THAN TWO YEARS AGO





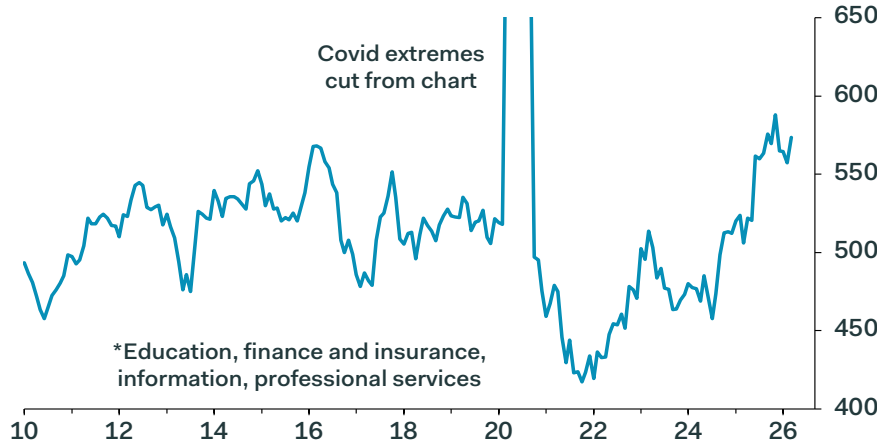
**17. EMPLOYMENT IS FALLING IN SECTORS WHICH HAVE EMBRACED AI...**

Payroll employment, m/m, K, six-month average



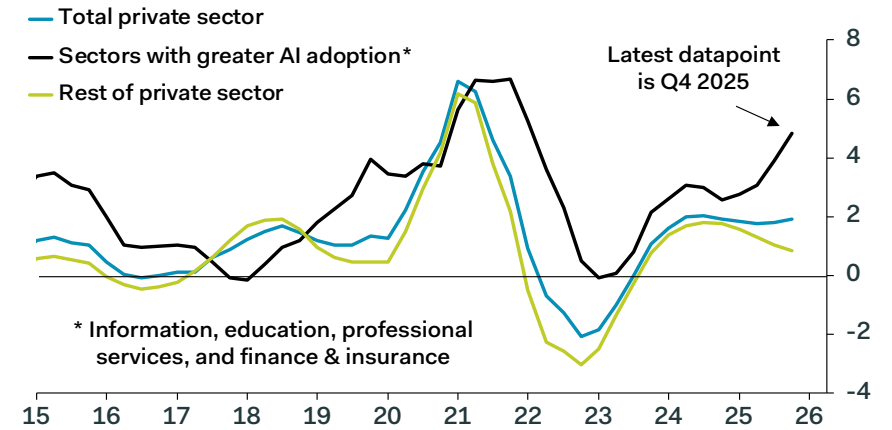
**18. ...LAYOFFS IN THESE SECTORS ARE NOW RELATIVELY HIGH**

— Total layoffs in high-AI adoption sectors\*, K, six-month average



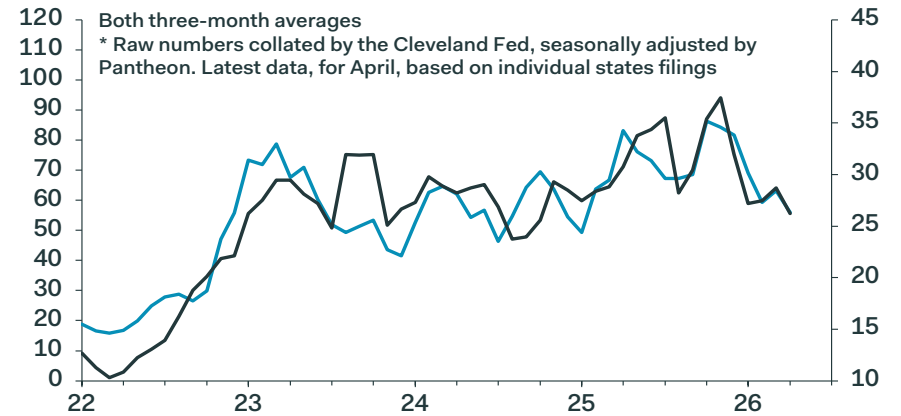
**19. BUT AI IS ALSO LIFTING PRODUCTIVITY, SUPPORTING DEMAND**

Real GVA per payroll employee, y/y%, four-quarter average



**20. NO SIGN OF BROADENING LAYOFFS IN LEADING INDICATORS**

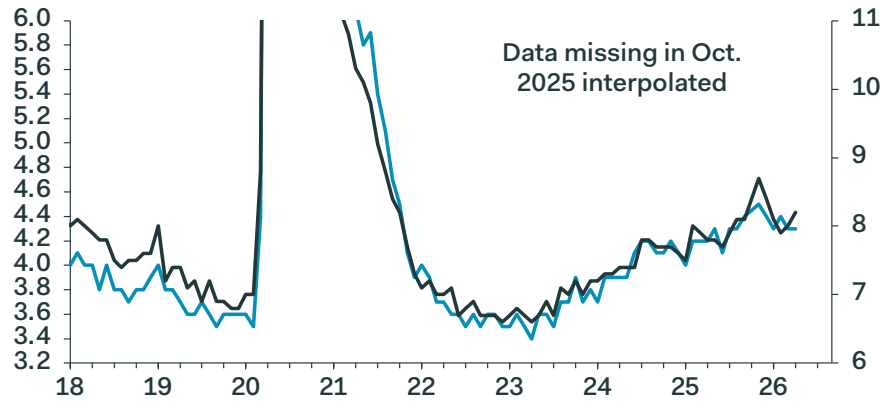
— Challenger layoff announcements, private sector, SA by Pantheon, K (Left)  
— WARN layoff filings\*, SA by Pantheon, K (Right)





**21. LABOR MARKET SLACK HAS BEEN LITTLE CHANGED RECENTLY...**

— U3 unemployment rate, % (Left)  
— U6 unemployment rate, % (Right)



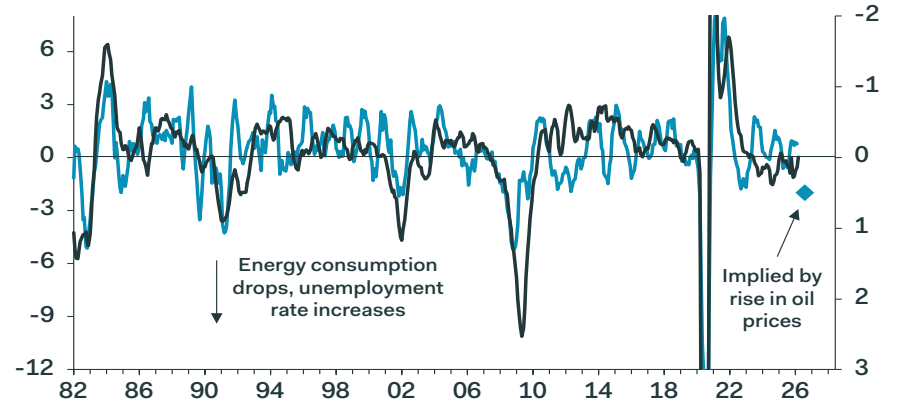
**22. ...THOUGH SOME SURVEYS IMPLY CONDITIONS HAVE WORSENEDED, A BIT**

— Conference Board jobs hard to get less jobs plentiful (Left)  
— Unemployment rate\*, % (Right)



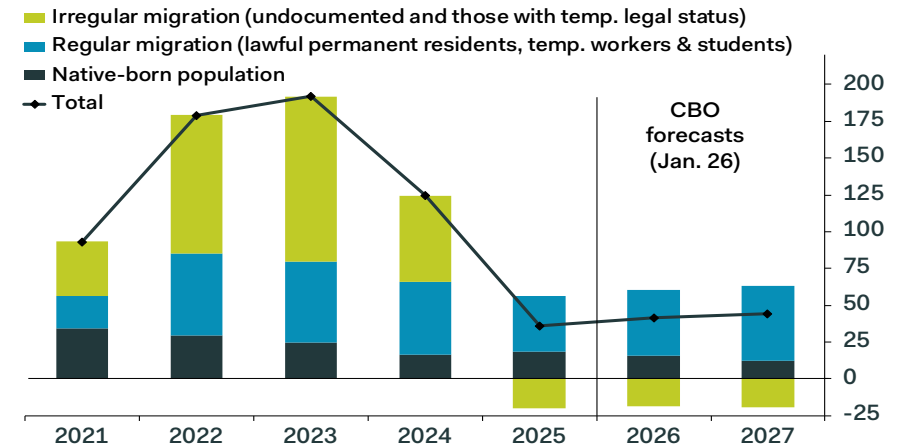
**23. THE OIL SHOCK BRINGS FRESH UPSIDE RISKS TO UNEMPLOYMENT**

— Product supplied of oil and petroleum products, 6m/6m% change (Left)  
— Unemployment rate, 6m/6m change, pp, inverted (Right)



**24. BREAK-EVEN PAYROLLS 50K, EQUIVALENT TO 125K FIRST ESTIMATE**

Monthly growth in the potential labor force based on CBO population estimates, K

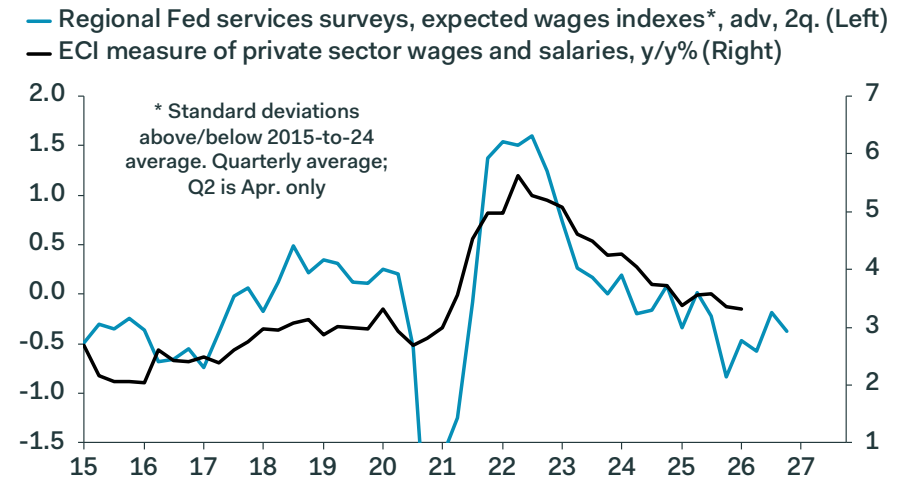




**25. WAGE GROWTH IS CONTINUING TO SLOW**



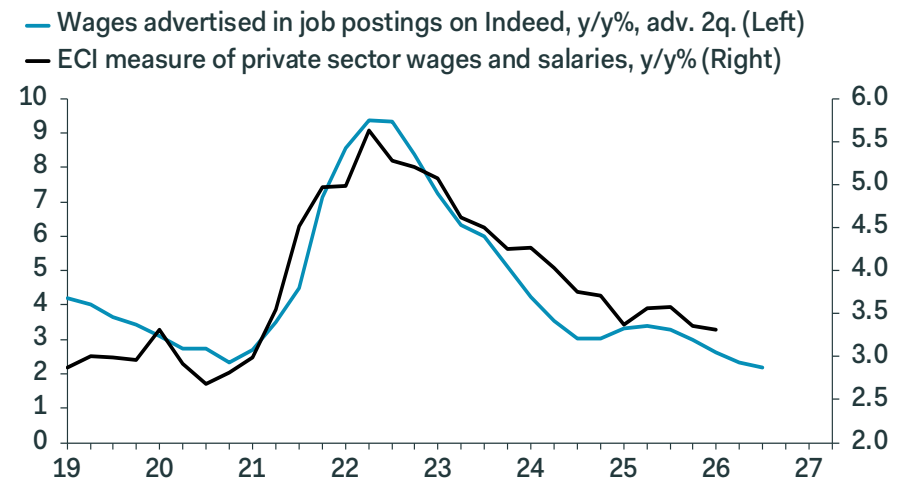
**27. BUSINESSES INTEND TO REDUCE WAGE GROWTH FURTHER**



**26. EMPLOYERS NO LONGER ARE WORRIED THEIR EMPLOYEES WILL QUIT**

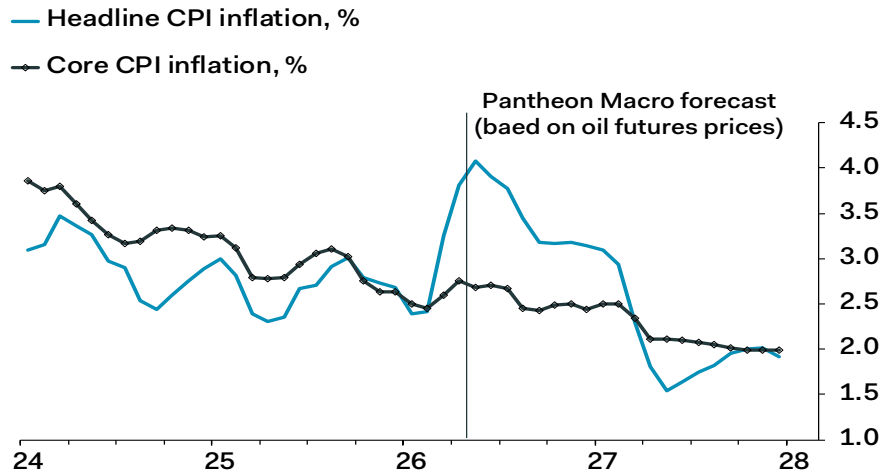


**28. WAGES IN JOB ADS ARE LESS THAN 3% HIGHER THAN A YEAR AGO**

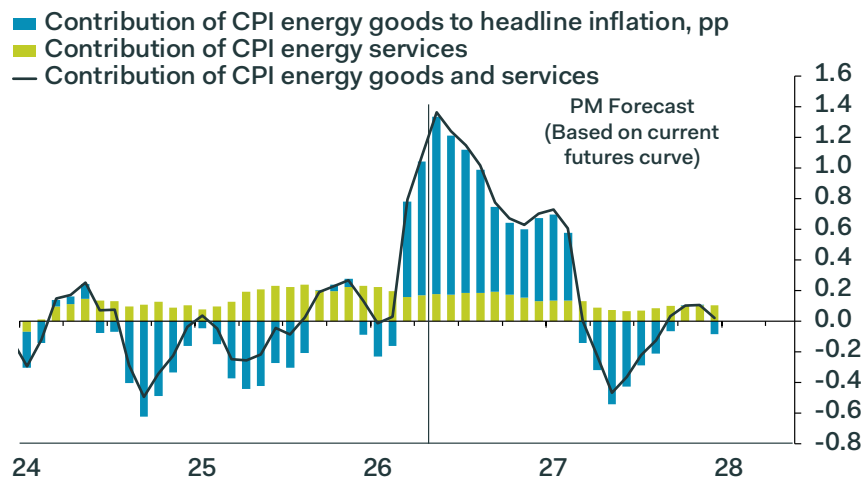




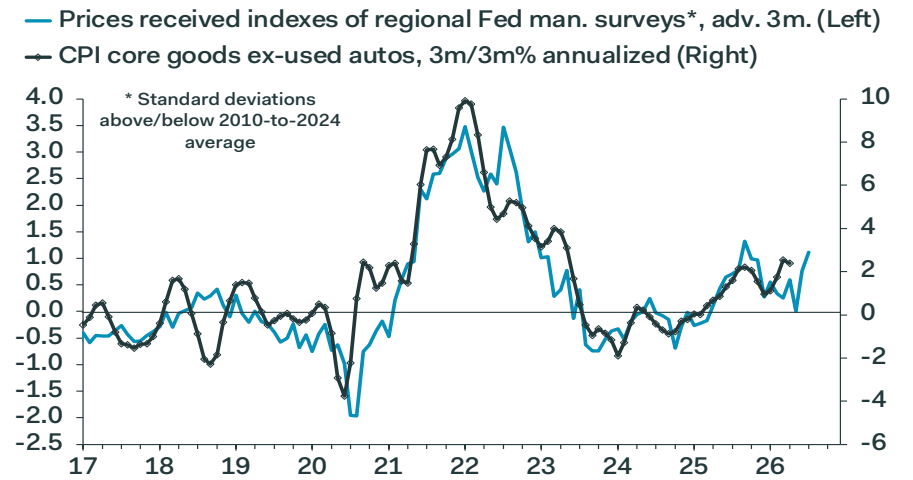
**29. HEADLINE CPI INFLATION JUMPED TO 3.8% IN APRIL...**



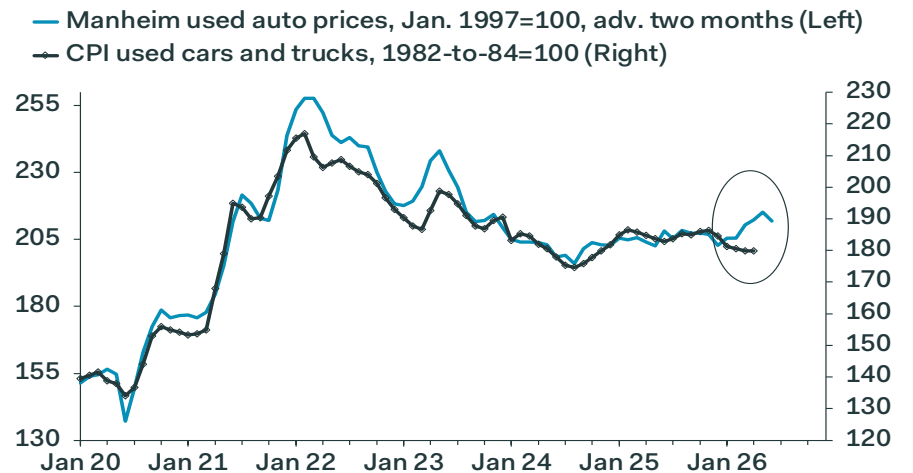
**30. ...HIGHER GAS PRICES WILL LIFT IT TO 4.1% IN APRIL**



**31. MANUFACTURING SURVEYS SIGNAL A PICK-UP IN CORE GOODS PRICES**

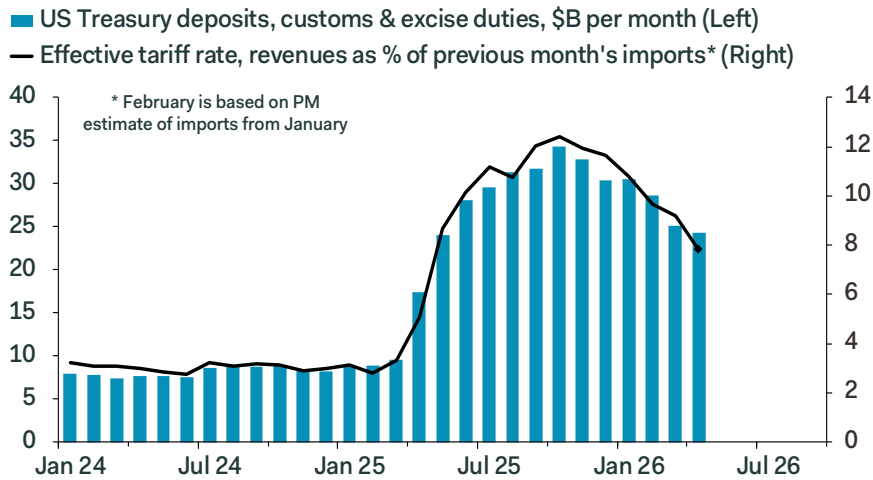


**32. PRICES FOR USED AUTOS LIKELY WILL RISE SOON TOO**

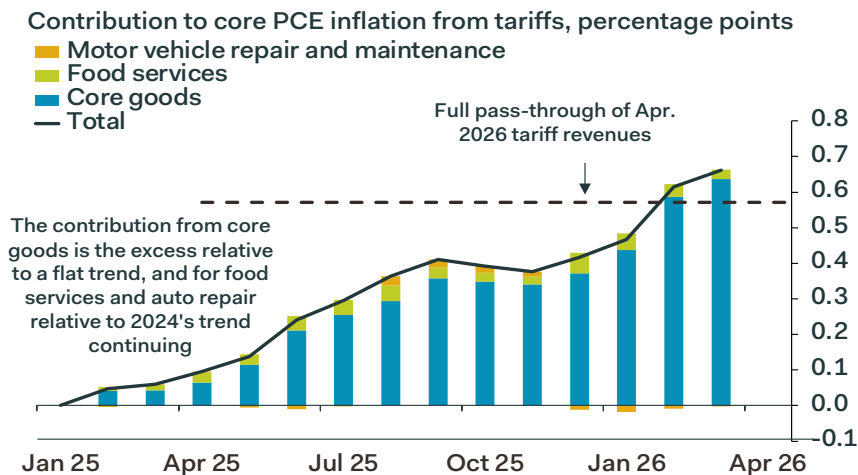




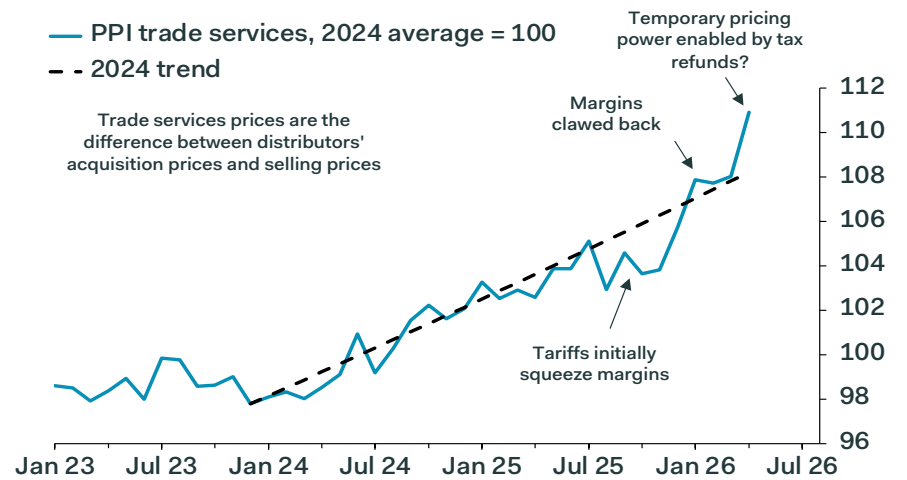
**33. THE TARIFF SHOCK, HOWEVER, IS FADING; REFUNDS ARE NOW BEING PAID**



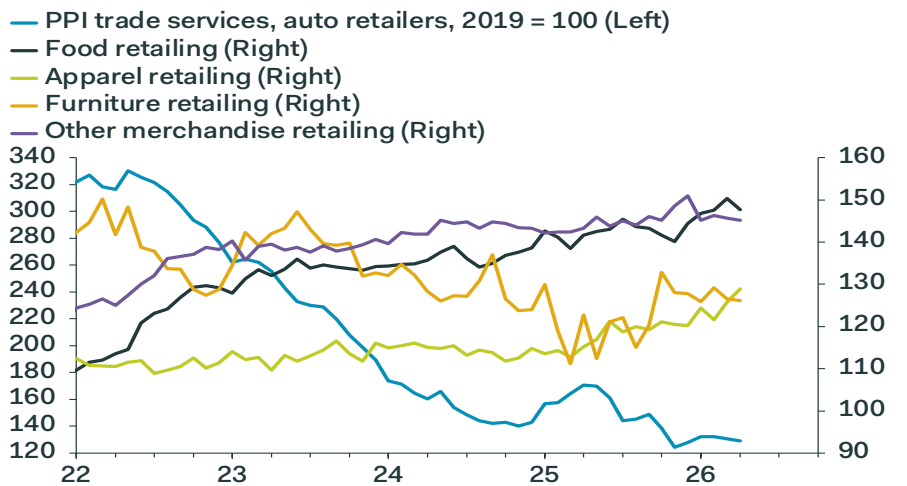
**34. THE TARIFF COSTS HAVE FULLY PASSED THROUGH TO CONSUMER PRICES**



**35. RETAIL MARGINS LEAPT IN APRIL, AMID TEMPORARY SPENDING STRENGTH**

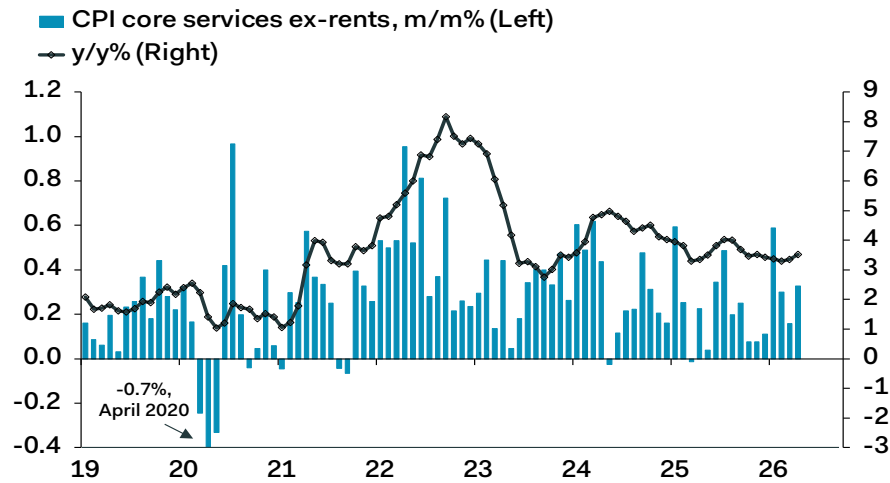


**36. CLOTHING RETAILERS' MARGINS LIKELY ALSO LIFTED BY HOT WEATHER**

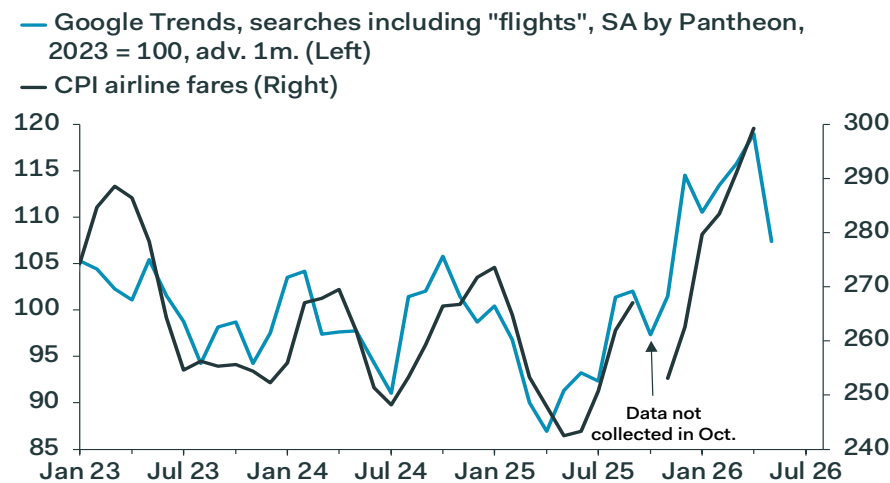




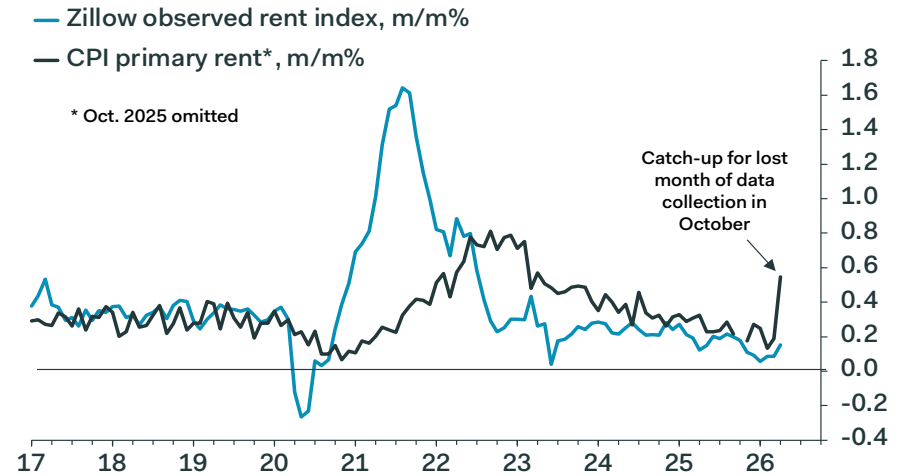
37. CORE SERVICES INFLATION PICKED UP IN APRIL...



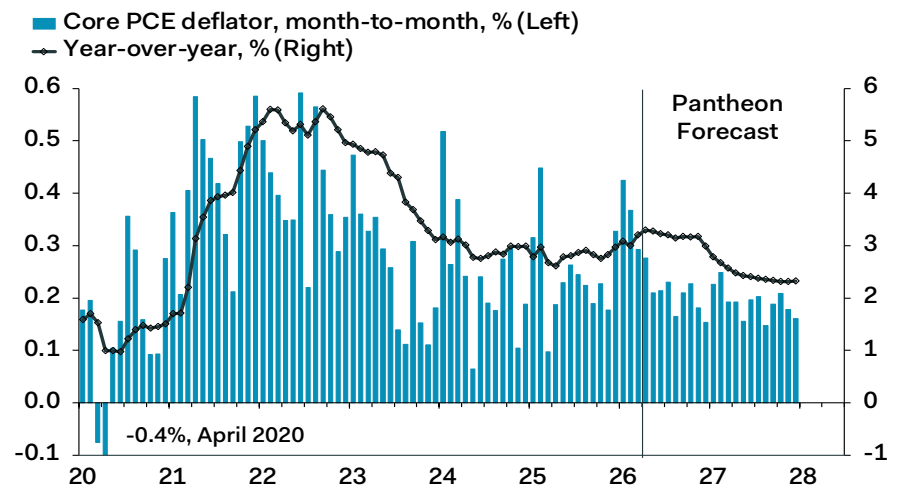
38. ...BUT THE SURGE IN AIRLINE FARES LOOKS SET PARTIALLY TO UNWIND



39. ZILLOW DATA SIGNAL A FURTHER BIG FALL IN CPI RENT INFLATION

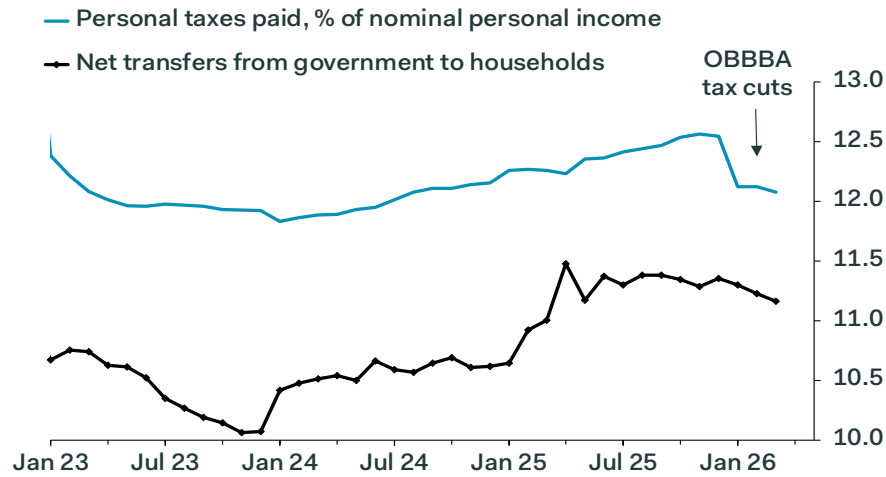


40. CORE PCE INFLATION LIKELY WILL FALL BELOW 3% BY DECEMBER

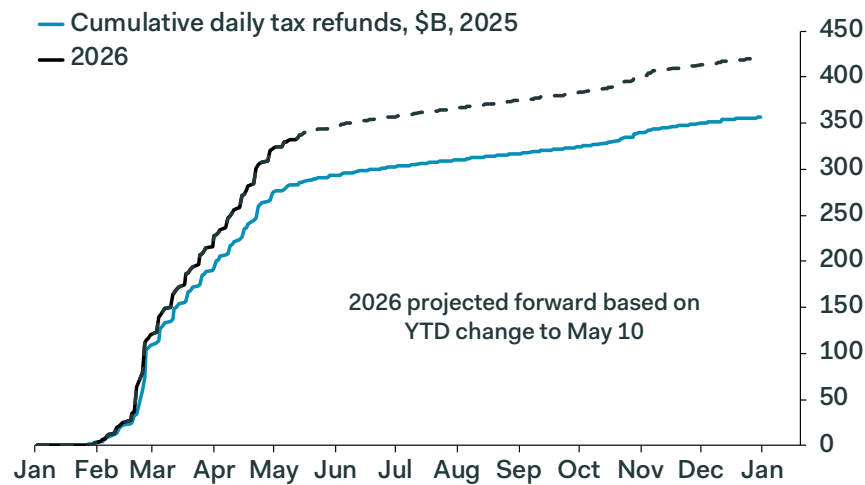




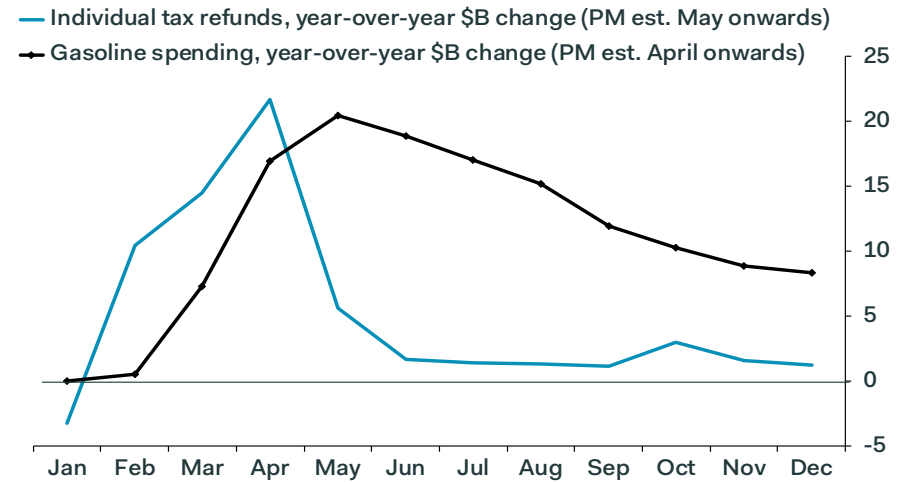
**41. AFTER-TAX INCOMES HAVE BEEN BOOSTED BY THE OBBBA**



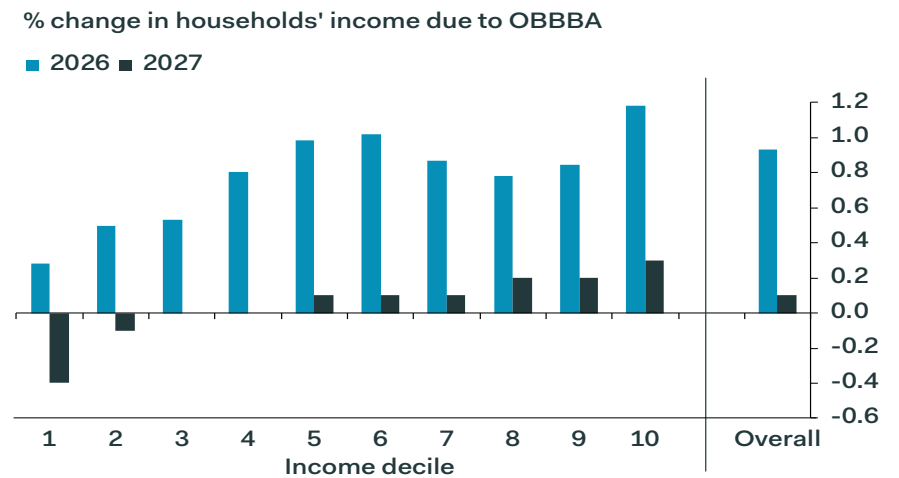
**42. HOUSEHOLDS ARE ENJOYING BIGGER-THAN-USUAL TAX REFUNDS**



**43. BUT REFUNDS WILL FADE FASTER THAN THE GAS PRICE SHOCK**



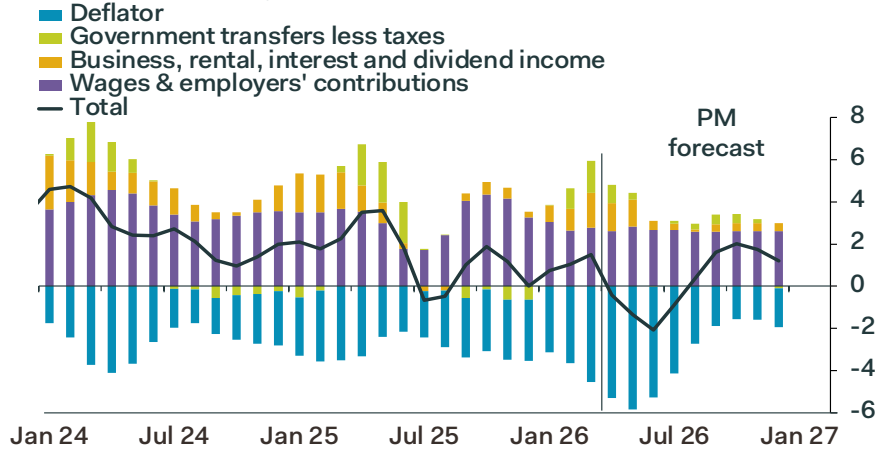
**44. OBBBA MEASURES START TO HIT LOW-INCOME HOUSEHOLDS IN 2027**





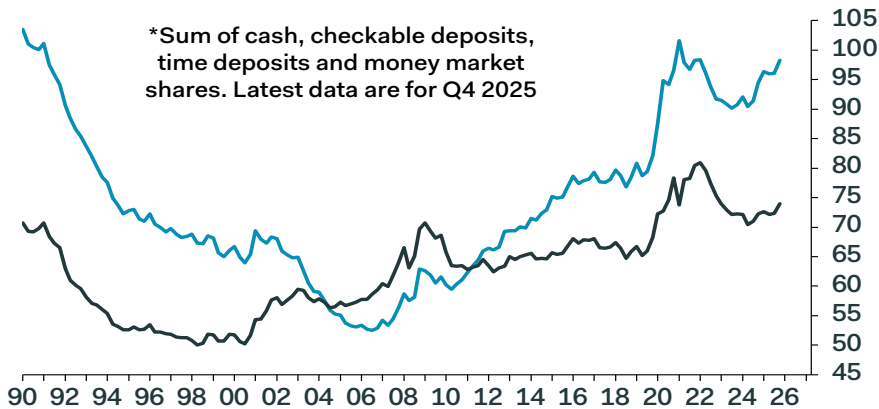
**45. REAL INCOMES WILL DROP IN Q2; SPENDING GROWTH WILL SLOW**

Real after-tax income, 3m/3m% annualized



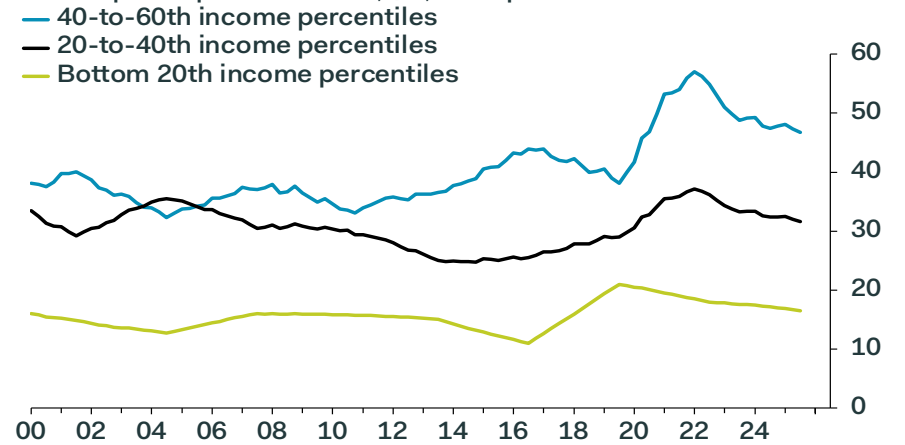
**46. HOUSEHOLDS HAVE MORE SCOPE THAN USUAL TO RIDE OUT SHOCKS...**

— Households' liquid assets\*, % of total liabilities  
— % of nominal personal incomes



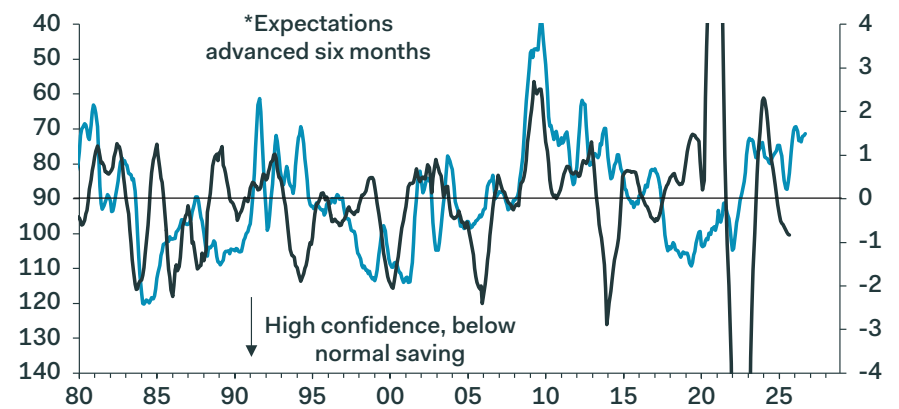
**47. ...THOUGH LOW INCOME HOUSEHOLDS HAVE A NORMAL SAVINGS BUFFER**

Real deposits per household, \$K, 2024 prices



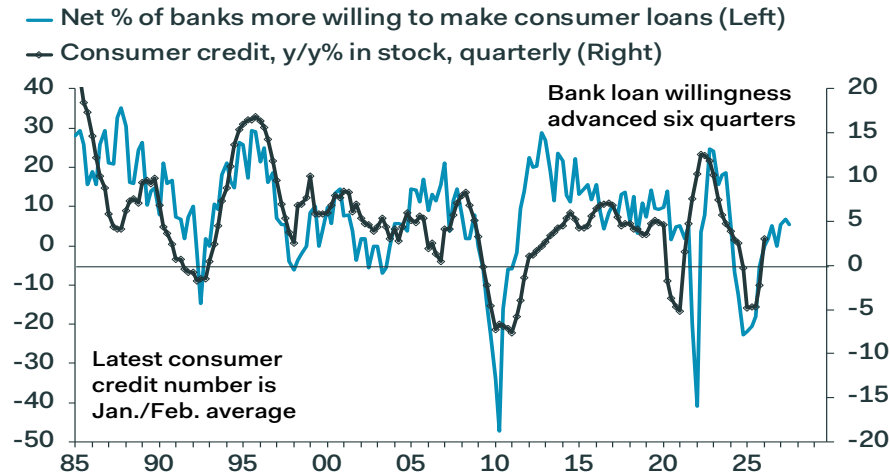
**48. CONSUMERS' CONFIDENCE IS TOO LOW FOR SUSTAINED DIS-SAVING**

— CB consumer survey, expectations index\*, inverted, 6m ave. (Left)  
— Personal saving rate less 10 yr av.^, percentage points, 3m. ave. (Right)

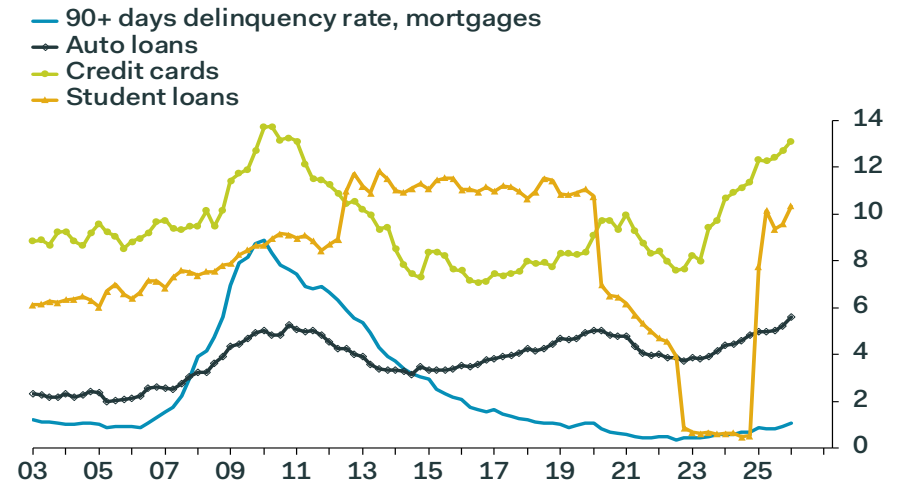




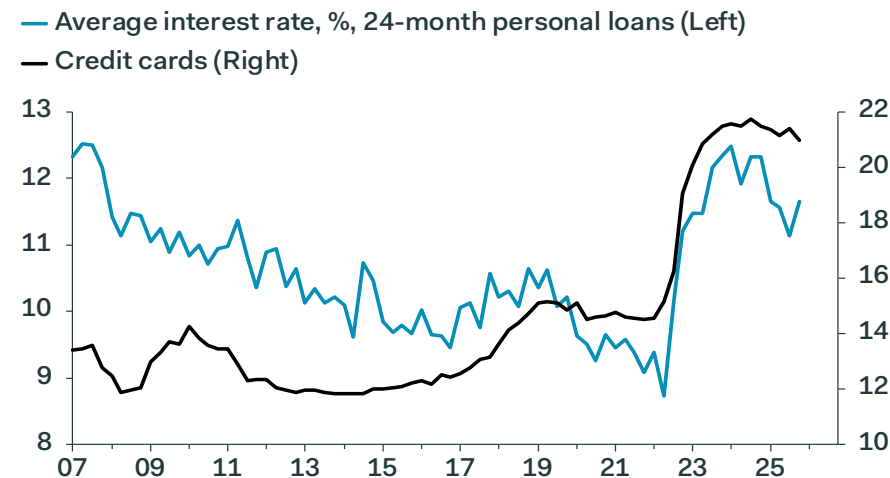
49. BANKS HAVE BECOME MORE WILLING TO LEND...



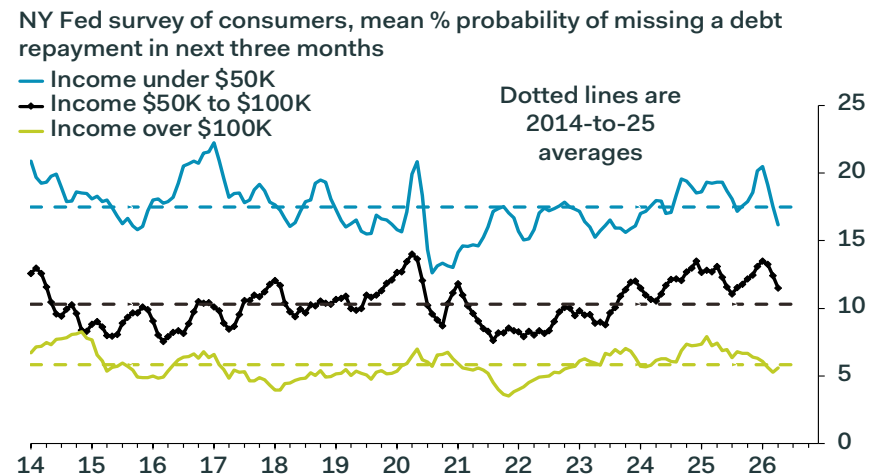
51. ...AND EXISTING DEBTS ARE ALREADY UNBEARABLE FOR MANY PEOPLE



50. ...BUT INTEREST RATES REMAIN EXTREMELY HIGH...

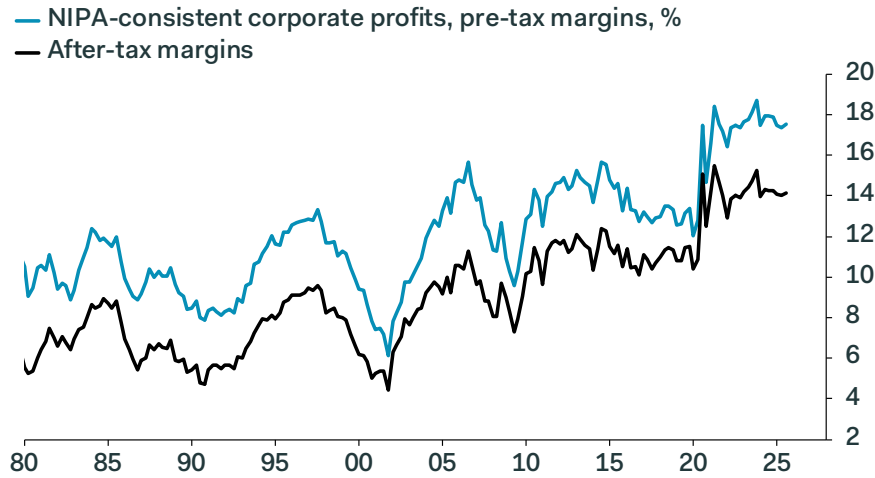


52. MID-INCOME HOUSEHOLDS ARE STRUGGLING MORE THAN USUAL

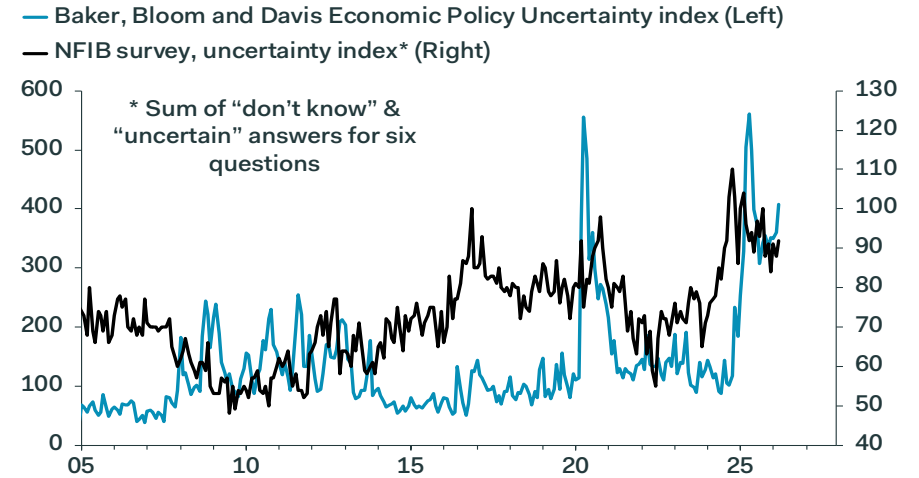




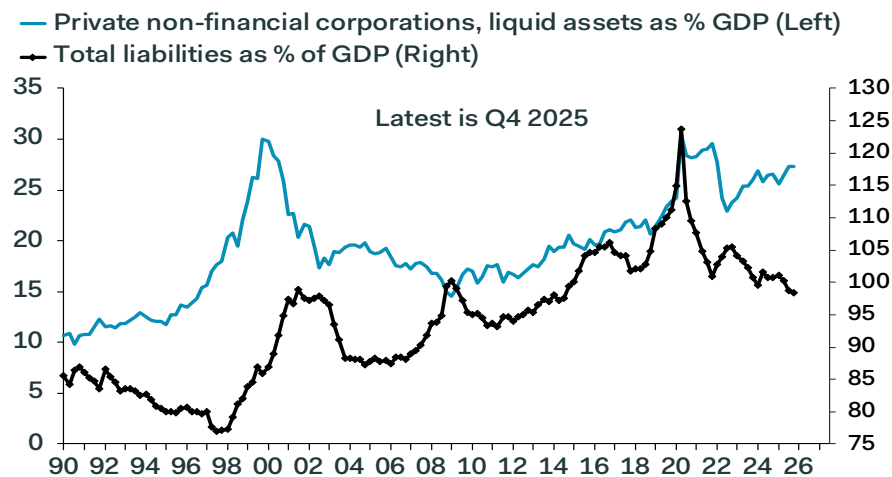
**53. CORPORATE PROFITS ARE HOLDING UP WELL...**



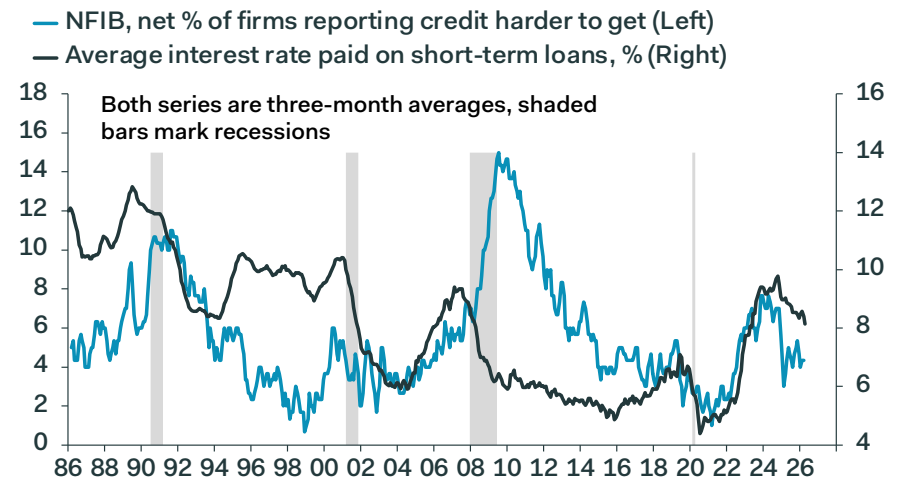
**55. BUT BUSINESSES VIEW THE OUTLOOK AS VERY UNCERTAIN**



**54. ...AND BALANCE SHEETS ARE RELATIVELY HEALTHY, IN AGGREGATE**



**56. SMALL BUSINESS CONTINUE TO FACE HIGH BORROWING COSTS...**

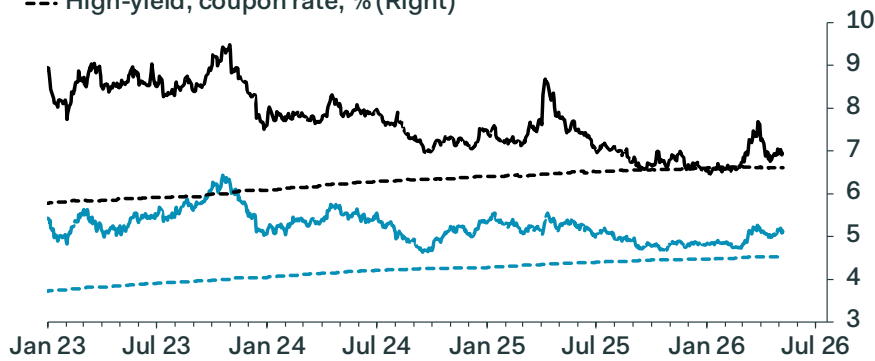




**57. ...AND BIG FIRMS STILL HAVE TO REFINANCE BONDS AT HIGHER RATES**

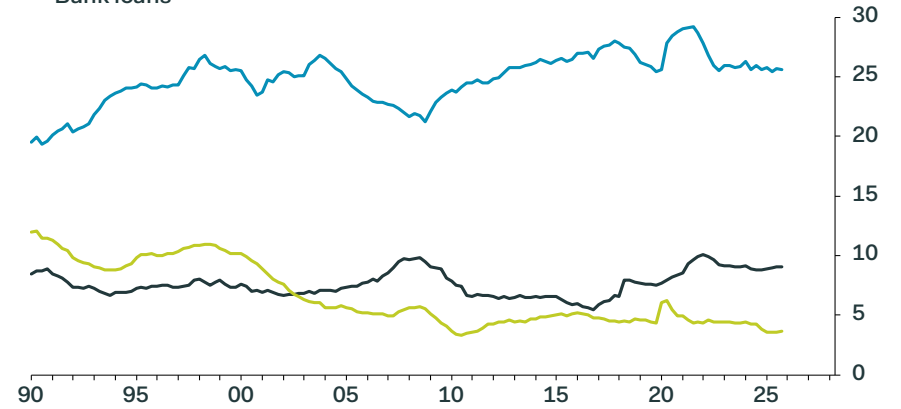
Interest rates for Bloomberg US corporate bond indexes

- Investment grade, yield, % (Left)
- - - Investment grade, coupon rate, % (Left)
- High-yield, yield, % (Right)
- - - High-yield, coupon rate, % (Right)



**59. ...BUT THIS TIME, IT LIKELY REFLECTS RESTRICTIONS ON PRIVATE CREDIT**

- Nonfin. corporations, liabilities (ex. equity) by source, %, corporate bonds
- Nonbank loans
- Bank loans



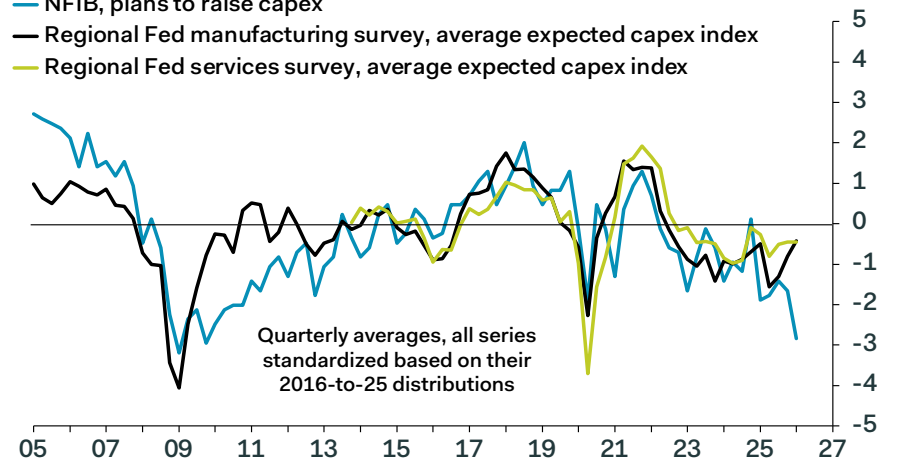
**58. BANK LENDING HAS PICKED UP; OFTEN THAT SIGNALS MORE CAPEX...**

- Bank lending to commercial and industrial corp., pp change in y/y% growth (Left)
- Nominal nonresidential fixed investment, y/y% (Right)



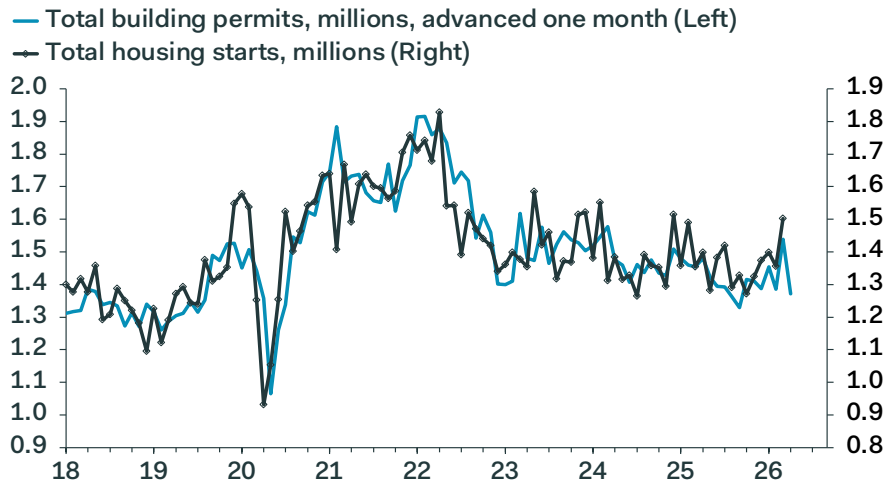
**60. CAPEX INTENTIONS REMAIN SUBDUED, ESPECIALLY AT SMALL FIRMS**

- NFIB, plans to raise capex
- Regional Fed manufacturing survey, average expected capex index
- Regional Fed services survey, average expected capex index

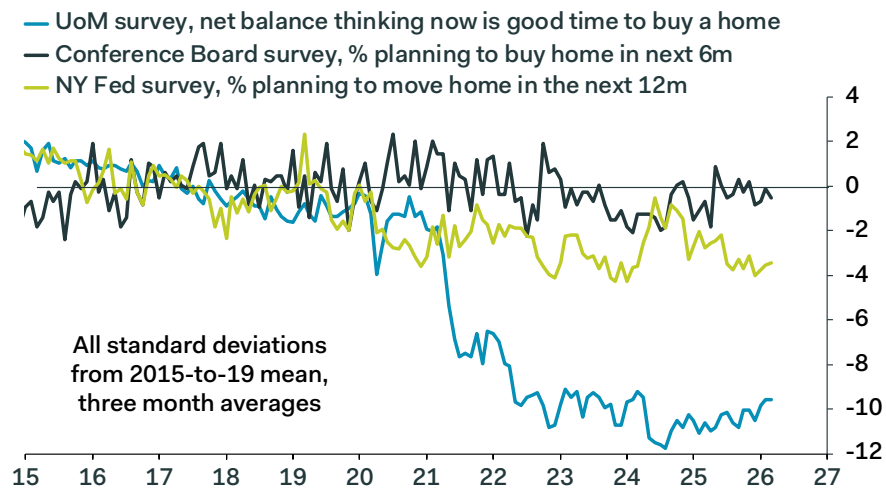




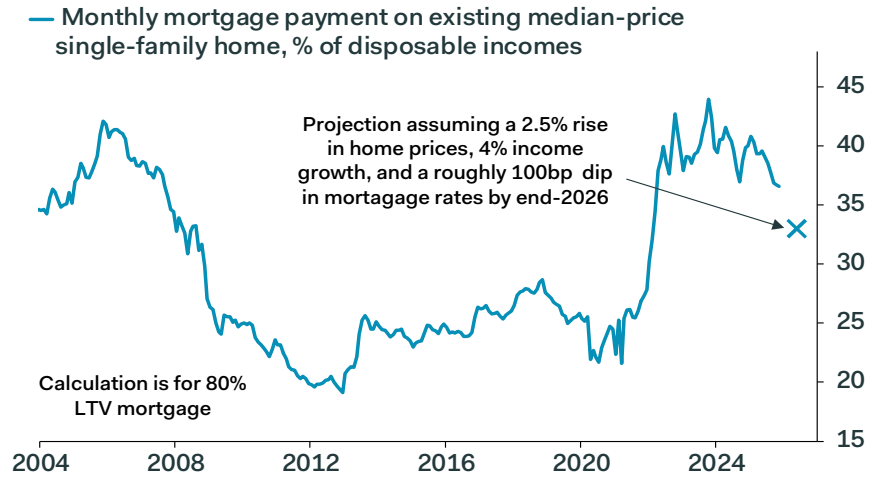
**61. THE MARCH JUMP IN HOUSING STARTS WILL NOT BE SUSTAINED**



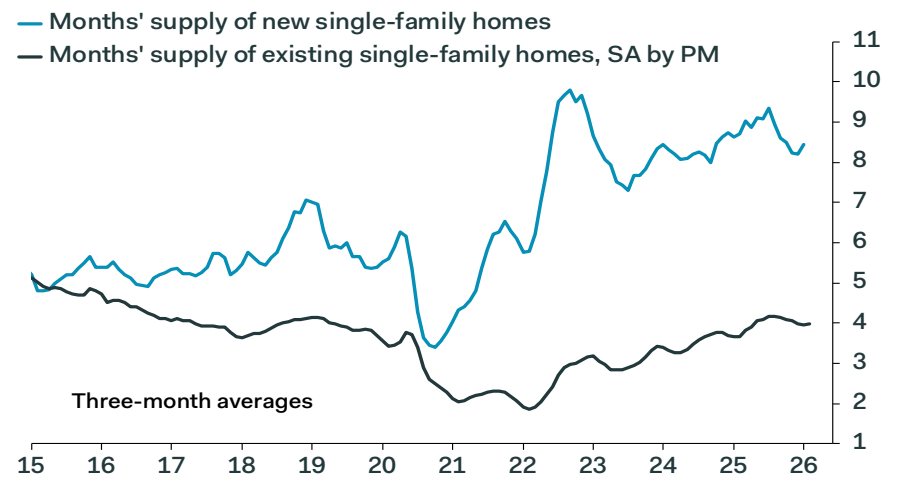
**62. RELATIVELY FEW PEOPLE EXPECT TO BUY A HOME THIS YEAR**



**63. AFFORDABILITY WILL REMAIN A MAJOR CONSTRAINT ON DEMAND**



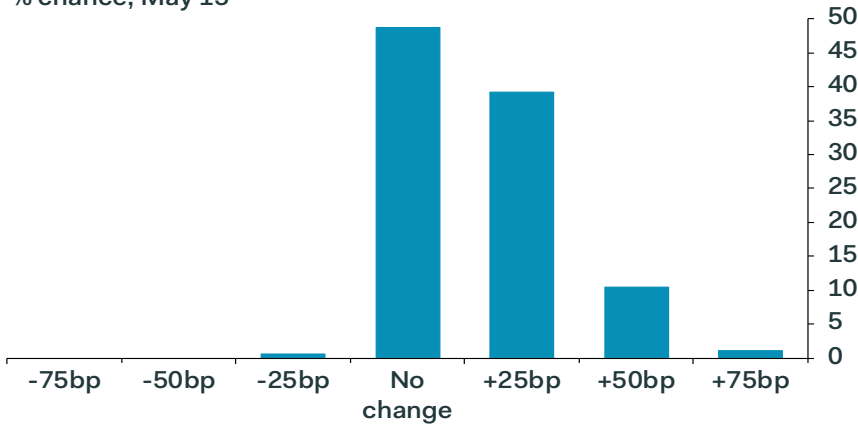
**64. EXCESS INVENTORY WILL WEIGH ON HOMEBUILDING TOO**





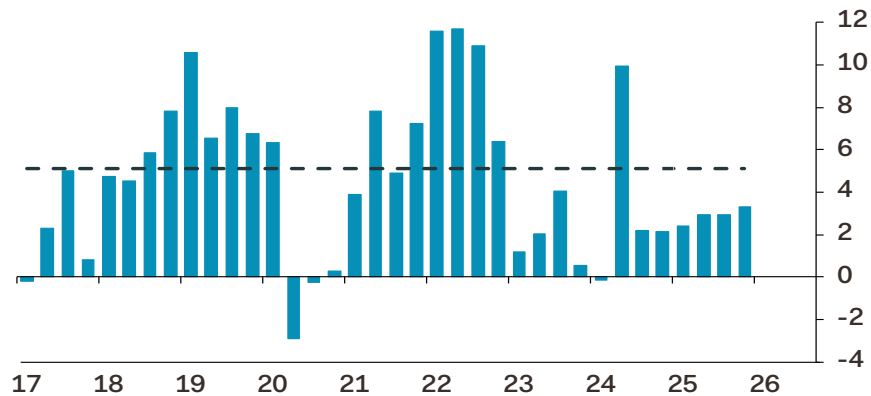
65. MARKETS SEE AN EVEN CHANCE OF A RATE HIKE THIS YEAR...

Futures-implied change in Fed funds rate by December 2026, % chance, May 15

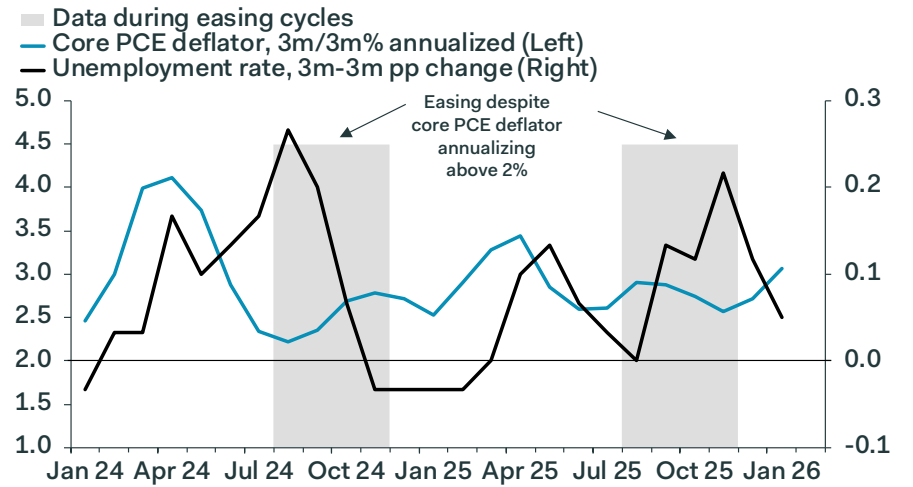


66. ...BUT MONETARY POLICY IS STILL MEANINGFULLY RESTRICTIVE

■ Liabilities, households and non-financial corporations, q/q% ann.  
-- 2000-to-19 average

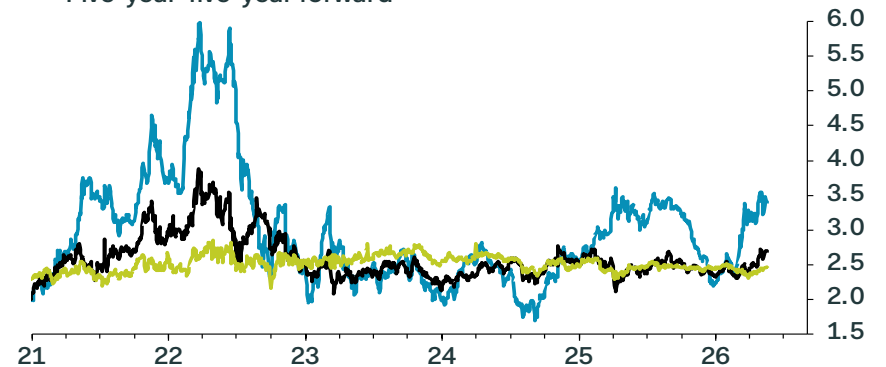


67. ...AND THE FED HAS BEEN VERY REACTIVE TO RISING UNEMPLOYMENT



68. NO NEED TO HIKE TO QUELL INFLATION EXPECTATIONS

Zero-coupon inflation swap rates, %  
— One-year  
— One-year-one-year-forward  
— Five-year-five-year forward





	Q1 25	Q2 25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	2024	2025	2026	2027
<i>Forecasts in blue</i>												
<b><i>Economic activity, q/q% ann.</i></b>									<b><i>y/y%</i></b>			
Consumers' spending	0.6	2.5	3.5	1.9	1.6	1.0	0.5	2.0	2.9	2.6	1.7	1.6
Fixed investment	7.1	4.4	0.8	1.5	6.2	2.1	2.3	2.6	3.0	2.7	3.0	2.9
...Residential	-1.0	-5.1	-7.1	-1.7	-8.0	0.0	1.0	1.0	3.2	-2.2	-3.4	1.9
...Equipment	21.4	8.5	5.3	4.3	17.2	1.0	1.0	2.0	3.5	8.3	6.5	2.1
...IP & software	6.5	15.0	5.6	5.4	13.0	4.0	4.0	4.0	3.5	5.6	7.3	4.0
...Non-residential structures	-3.1	-7.5	-5.0	-6.5	-6.7	2.0	2.0	2.0	1.1	-5.3	-3.3	2.3
Government spending	-1.0	-0.1	2.2	-5.6	4.4	2.0	1.5	1.5	3.8	1.1	0.9	1.3
Inventories, \$B change	172	-18	-24	-16	-8	5	15	15	43	29	7	40
Domestic demand	4.0	-0.7	2.7	0.7	3.0	1.6	1.1	2.0	3.1	2.3	1.7	1.9
Exports	0.2	-1.8	9.6	-3.2	12.9	1.5	1.5	1.5	3.6	1.6	4.1	1.5
Imports	38.0	-29.3	-4.4	-1.0	21.4	2.0	2.0	2.0	5.8	2.7	2.6	2.1
<b>GDP</b>	<b>-0.6</b>	<b>3.8</b>	<b>4.4</b>	<b>0.5</b>	<b>2.0</b>	<b>1.5</b>	<b>1.0</b>	<b>2.0</b>	<b>2.8</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>
<b><i>Labor market costs &amp; prices, period averages</i></b>												
Payrolls, first estimate, K	174	154	71	3	63	88	75	75	216	101	75	150
Unemployment rate, %	4.1	4.2	4.3	4.5	4.3	4.4	4.6	4.7	4.0	4.3	4.5	4.3
ECI wages and salaries, y/y%	3.5	3.6	3.6	3.4	3.3	3.0	2.9	2.9	4.1	3.5	3.0	2.8
CPI inflation, %	2.7	2.4	2.9	2.7	2.7	3.9	3.5	3.2	3.0	2.7	3.3	2.1
Core CPI inflation, %	3.1	2.8	3.1	2.7	2.5	2.7	2.6	2.6	3.4	2.9	2.6	2.2
Core PCE inflation, %	2.8	2.7	2.9	2.9	3.1	3.3	3.2	3.1	2.8	2.8	3.2	2.4
<b><i>Other</i></b>												
Current account, % GDP	-4.5	-4.3	-4.0	-3.5	-3.5	-3.5	-3.5	-3.5	-3.6	-4.1	-3.5	-4.0
Budget deficit, %GDP, FY	-	-	-	-	-	-	-	-	6.8	5.8	6.0	6.0
Fed funds, end-period	4.375	4.375	4.125	3.625	3.625	3.625	3.625	3.375	4.375	3.625	3.375	2.875
10-year notes, end-period	4.21	4.38	4.15	4.17	4.32	4.20	4.00	3.80	4.58	4.17	3.80	3.60
30-year bonds, end-period	4.59	4.78	4.73	4.85	4.91	4.90	4.70	4.50	4.79	4.85	4.50	4.20
S&P 500, end-period	5,612	6,173	6,688	6,846	6,528	7,000	7,000	7,100	5,882	6,846	7,100	7,400