Despite Headwinds, Economy Remains Resilient

The economy has faced a number of significant headwinds in 2026, most notably the Iran war, which has caused energy costs to spike and inflation to reaccelerate. Core PCE inflation, the Fed's preferred inflation gauge, increased to 3.4% — the highest rate in three years and well off the central bank's 2% target.

Despite these challenges, the economy continues to post solid data suggesting that recession risk remains contained. Consumer confidence has improved, but sentiment itself is highly politicized, reducing its value as an economic forecast indicator.

The labor market has lost momentum recently but continues to show employment gains and a low level of unemployment. In June, the economy added 57,000 jobs. While positive, this was the smallest gain since an outright loss was reported in February. The unemployment rate was a low 4.2% in June, but the labor force participation rate declined to 61.5%, its lowest level in more than five years.

Residential construction employment lost 8,900 workers in June and has now declined in four of the last five months. Over the last year, the residential construction sector has lost 48,800 jobs. Despite hiring weakness in the home building sector, job openings across the broader construction industry increased to 298,000 in May, up from 220,000 a year ago. Data center and tech-related construction has increased demand for construction workers.

Amid ongoing housing affordability challenges, residential construction growth has been led by remodeling in recent quarters. For example, according to the Census Bureau's construction spending report for May, improvement-related spending was up 8.1% over the last year. By contrast, during that same period, single-family construction spending was down 4% while multifamily construction spending was up 3.3%. These trends will continue for the remainder of 2026, with home equity and an aging housing stock powering the remodeling market.

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