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ECONOMIC RESEARCH – JUNE 2026

INVESTMENT INSIGHT USA

- ✓ The momentum of the services PMI is a cause for concern
- ✓ The job market is weakening and returning to a downward trend
- ✓ The Fed enters a new era under Kevin Warsh
- ✓ Inflation stabilizes at high levels over the summer

A SURPRISING START TO THE KEVIN WARSH ERA

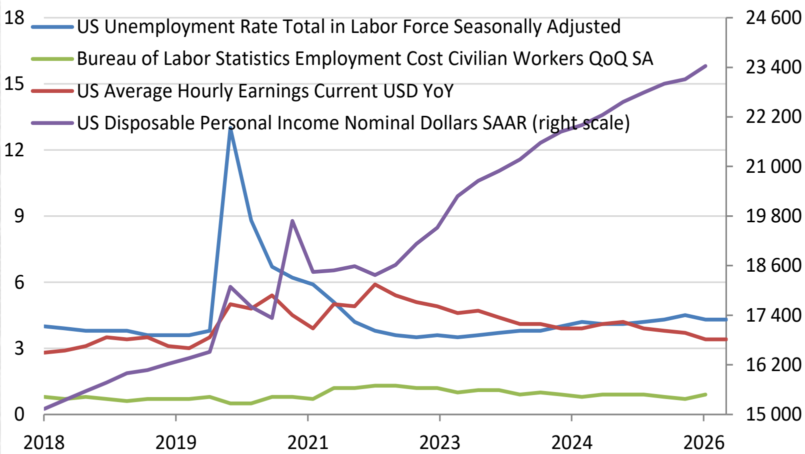
Services Edge Near Contraction as Factories Outpace

The US manufacturing sector demonstrated surprise structural strength in Q2, with the ISM and S&P Global PMIs peaking at multi-year highs of 54.0 and 55.3 respectively. While tech and automotive demand anchored this production momentum, the massive consumer services engine nearly stalled out. Squeezed by elevated fuel prices, discretionary spending on travel and leisure plummeted, dropping the Services PMI down to a marginal 50.7 in May before a minor, event-driven June bounce to 51.3. Meanwhile, corporate input price pressures eased slightly but remained historically bloated.

June Payroll Collapse Erases Spring Growth Mirage

The domestic employment landscape suffered a severe setback in June, with the economy adding a meager 57,000 nonfarm jobs, well below Wall Street expectations of 115,000. Compounding this shock, the Bureau of Labor Statistics aggressively erased 74,000 previously reported jobs through deep downward revisions to April and May. While the official unemployment rate technically compressed to 4.2%, this decline was entirely artificial; it was driven by 720,000 discouraged workers completely abandoning the labor force, dragging the participation rate to a multi-year low of 61.5%.

Unemployment rate, income, labor costs, wages



Sources : Bloomberg, BBGI Group

Fed Chair Warsh Hardens Target at Sintra

Newly appointed Federal Reserve Chair Kevin Warsh used his late-June debut at the Sintra economic forum to forcefully assert the central bank's absolute institutional independence. Squashing market rumors of a politically motivated inflation-target hike, Warsh explicitly stated that the Fed will not tolerate any structural deviation above its historical 2% objective. Consequently, monetary policy will remain restrictive through the summer despite a cooling consumer landscape. However, as external supply shocks bypass rate hikes, a sharp economic slowdown could force a Q4 policy pivot toward easing.

Divergent June Inflation Trajectories Reveal Price Rigidity

US consumer prices continued to track a dual-speed trajectory through early summer, showcasing a widening gap between volatile inputs and sticky underlying costs. Spurred by a massive +23.5% year-over-year surge in energy components, headline CPI jumped to an annual rate of 4.2% in May, hovering near 4.0% for June. In contrast, core inflation printed at a lower 2.85%, exposing intense underlying rigidity within the domestic housing and services sectors. This divergence leaves real consumer purchasing power deeply compromised as wage growth (+3.5%) fails to keep pace.

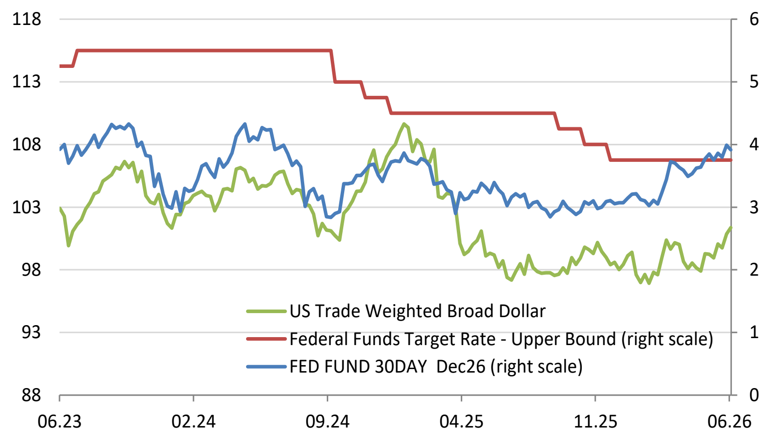
Commodity Relief Clashes with Delayed Tariff Costs

The macro inflation outlook for the third quarter is caught in a direct tug-of-war between easing global supply pressures and mounting domestic structural costs. Near-term relief is materialized via the Middle East maritime accord, which sparked the sharpest manufacturing "prices paid" index drop since 2022 and deflated retail fuel costs. However, this commodity lull is actively counterbalanced by new tariff burdens. Now that corporate inventory drawdowns are complete, delayed import duties are passing directly to consumers, pinning core inflation above a sticky 2.7%.

Stagflation Risk Cools Consumer Outlook

Sticky inflation between 3% and 3.5% is grinding down real disposable income, forcing US households to dial back on services, leisure, and travel. While falling energy prices after the Middle East maritime accord will provide relief at the pump, delayed tariff pass-throughs prevent a deeper drop in core living costs. This persistent price pressure, coupled with slowing wage growth, guarantees a quiet summer for domestic retail demand.

Fed funds, policy rates, and the USD (trade-weighted)



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