



On a structurally cooling trend

- **Economic growth cooled towards the end of 2025, partly reflecting a rebound in imports. We expect structural forces to cool growth further in 2026, even though more favourable growth overhang lifts 2026 GDP forecast compared to December.**
- **We lift our 2026 GDP growth forecast to 2.0% (from 1.8%) but maintain 2027 at 1.7%. Stagnant labour supply growth and cooling wage growth are set to weigh on household consumption growth, which is only partially compensated by rising fixed investment spending.**
- **Inflation continues to evolve mostly in line with our forecasts despite the distortions that affected data in Q4. Slowing housing and unit labour cost growth will maintain overall inflation in check, even though tariff pass-through will still lift goods and food prices in 2026. We forecast headline inflation at 2.4% in 2026 (from 2.5%) and 2.4% in 2027 (unchanged). We forecast core inflation at 2.5% in 2026 (from 2.8%) and 2.6% in 2027 (unchanged).**
- **We expect the Fed to deliver two more 25bp rate cuts in June and September (prev. March and June) and then maintain the terminal rate of 3.00-3.25% through the rest of 2026 and 2027 (unchanged). Risks around the outlook are balanced. Sudden slowdown in private consumption could tilt the Fed towards resuming more aggressive rate cuts, but fiscal easing and stronger global manufacturing boom could allow the Fed to maintain rates at current levels for longer.**

4 March 2026

Important disclosures and certifications are contained from page 3 of this report.

	2025	Forecast 2026	2027
GDP Growth	2.2%	2.0% (1.9%)	1.7% (1.7%)
Inflation	2.7%	2.4% (2.6%)	2.4% (2.6%)
Unemployment	4.3%	4.4% (4.5%)	4.3% (4.3%)
Fed Funds*	3.75%	3.25% (3.25%)	3.25% (3.25%)

Parentheses are the old projections (From December 2025)

*End of period

Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

The US economy has kicked off 2026 with mixed feelings. Adapting to living with tariffs, AI-related investment spending and prospects of stronger productivity growth have all lifted consensus growth expectations. But stagnant labour supply, cooling labour market balance and weak consumer confidence are sending the opposite signal.

A sharp decline in imports lifted growth contribution from net exports significantly until last October, but the effect began to reverse towards the end of the year. We expect this to continue, as pre-tariff inventories run dry and overall tariff levels have been reduced.

The Supreme Court's ruling against Trump's use of IEEPA emergency tariffs alleviated concerns of erratic trade policy changes, but the overall tariff burden begun to ease already in Q4. The latest ruling together with the series of trade deals have brought down the pre-substitution average tariff rate to around 14% from a peak of 26% last May. The effective post-substitution



Weaker household demand could offset the growth tailwind from AI-investments”

Antti Ilvonen, Senior Analyst

rate based on realized tariff revenue and import volume was even lower at just 10.9% in December. We assume that the administration will aim to maintain average tariff rates near current levels with a combination of country- and product-specific section 301 and 232 tariffs also after the 15 % section 122 replacement measures expire after 150 days. See more details from **RtM USD – Tariff ruling not a game changer for macro outlook**, 24 February.

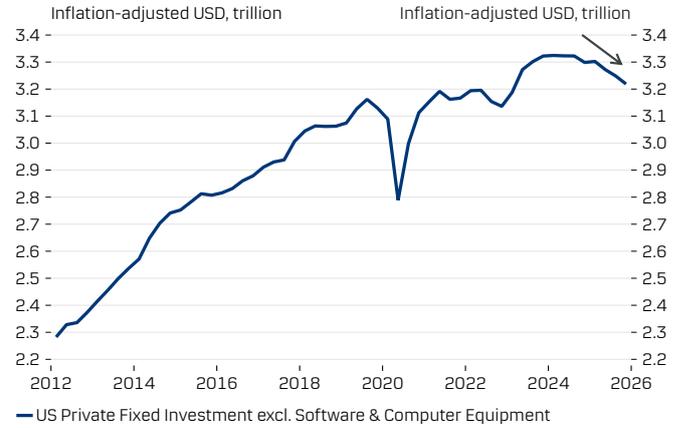
Rapid growth in investment spending on software and computer equipment, which is largely credited to AI, continues to provide a tailwind for growth in 2026. That said, the scale of the growth boost should not be overstated. In real terms, the aforementioned investments grew by USD237bn in 2025 on Q4/Q4 basis. This means, that a 1.4%-point slowdown in private consumption growth would have been enough to offset the entire positive growth impact. And it almost did, as real private consumption growth slowed from 3.4% y/y in Q4 2024 to only 2.2% y/y in Q4 2025. We expect weaker wage growth to weigh on household demand also in H1 2026.

All other types of fixed investments outright declined by USD80bn in 2025, driven particularly by manufacturing structures and residential housing investments. US housing market activity recovered very modestly in late 2025, but we do not expect construction investments to become a major growth driver in 2026. Elevated long-end mortgage rates continue to limit housing market activity.

Inflation has landed close to or slightly below consensus expectations over recent months despite the government shutdown complicating the interpretation of monthly inflation momentum. In our view, slowing unit labour cost growth and housing inflation will maintain underlying price pressures not far above the 2% target through most of 2025. We reduce our 2025 core CPI forecast to 2.5% (from 2.8%) despite the still ongoing tariff pass-through.

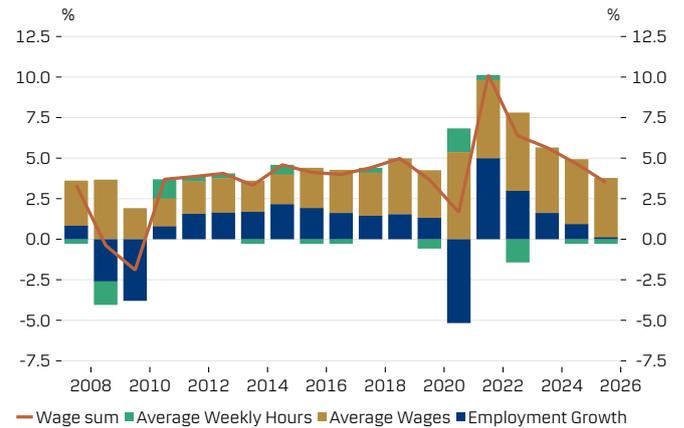
The Fed paused its rate cutting cycle again in Q1, but we expect cuts to resume already in early summer. We forecast two final rate cuts in June and September, after which the terminal rate target of 3.00-3.25% will be maintained through the rest of 2026 and 2027. Risks around the outlook are balanced. Sudden slowdown in private consumption could tilt the Fed towards more aggressive rate cuts, but fiscal easing and stronger manufacturing boom could allow the Fed to maintain rates at current levels for longer. The Congressional Budget Office sees 2026 fiscal deficit at 5.8% of GDP, essentially unchanged from 2025. In USD terms, deficit spending is projected to increase by USD77bn as the changes included in the ‘One Big Beautiful Bill Act’ take effect this year, but this would be offset by stronger nominal GDP growth. The longer-term deficit outlook remains as grim as ever, as the 30-year debt-to-GDP forecast for 2055 was revised up from 156% to 171% (current level: 100%).

Trump's policies have not been successful in fueling investment growth outside the AI-sector



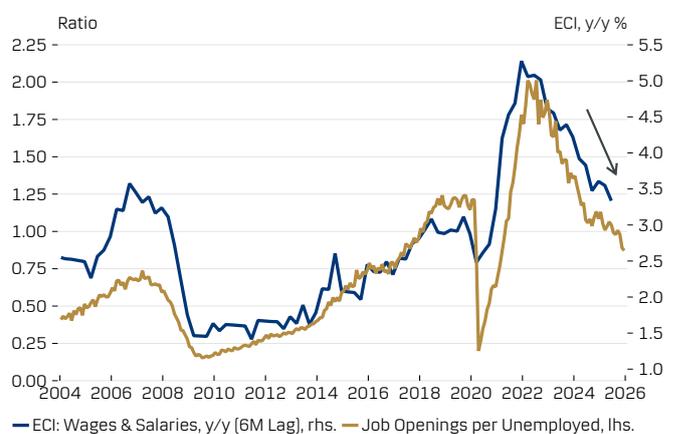
Sources: Macrobond, U. S. Bureau of Economic Analysis, Danske Bank

Private consumption outlook is highly sensitive to changes in wage growth



Sources: Macrobond, U. S. Bureau of Labor Statistics, Danske Bank

Declining labour demand predicts weaker wage growth in 2026



Sources: Macrobond, U. S. Bureau of Labor Statistics, Danske Bank



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