US

Nominal growth heats up

- **Economic growth cooled at the beginning of 2026, but despite the war in Iran, leading indicators have held up better than we anticipated. Improving labour market conditions and still solid investment demand lift the growth outlook.**

- **We keep our 2026 GDP growth forecast at 2.0% (from 2.0%) and lift 2027 to 1.8% (from 1.7%). Potential for future growth relies increasingly on fixed investments, not least related to AI, while consumers' ability to increase spending is limited by muted real wage sum growth.**

- **Inflation has exceeded our forecasts partly because of prolonging war in Iran, but also as underlying price pressures have increased. We lift our forecast for headline inflation to 3.5% in 2026 (from 2.4%) and 2.8% in 2027 (from 2.4%), and core inflation to 2.8% in 2026 (from 2.5%) and 3.0% in 2027 (from 2.6%).**

- **In late May, we revised our forecast for the Fed Funds Rate higher, and now expect two rate hikes in December and March. The risk of more persistent inflation pressures has increased while downside risks to labour markets have eased. That said, weak real income growth remains a downside risk for both our real GDP and policy rate expectations.**

		Forecast	
	2025	**2026**	**2027**
GDP Growth	2.1%	2.0% (2.0%)	1.8% (1.7%)
Inflation	2.7%	3.5% (2.4%)	2.8% (2.4%)
Unemployment	4.3%	4.3% (4.4%)	4.2% (4.3%)
Fed Funds*	3.75%	4.00% (3.25%)	4.25% (3.25%)

Parentheses are the old projections (From March 2026)
**End of period*
Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

The US economy has so far weathered the uncertainty created by the war in Iran much better than Europe, at least in relative terms. Nominal economic growth has exceeded both our and consensus expectations, even if the median American household might perceive the situation differently. Consumer confidence has weakened further and is now at the weakest level since the 2024 election even among Republican voters.

But even so, high-frequency labour market data has begun to improve, AI-capex boom shows no signs of fading and fiscal impulse is once again providing a tailwind for growth. While we think the growth outlook has improved since our last forecast update, we also think it relies on an increasingly narrow part of the economy.

Private consumption growth slowed down in Q1, as wage sum growth weakened in line with our expectations. Nominal wages and salaries grew at a still healthy pace of 3.4% y/y, but as lack of immigration has slowed the pace of labour supply growth close

3 June 2026
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> *Demand-driven inflation concerns increase the likelihood of Fed hikes next winter"*
>
> *Antti Ilvonen, Senior Analyst*

to a halt, aggregate jobs growth has also weakened. This meant that as inflation picked up in April, real wage sum growth turned negative for the first time since March 2021. In other words, average households' disposable income is no longer increasing relative to inflation.

So far, consumers have been able to absorb the rising energy costs by decreasing their saving, as households' savings rate fell to just 2.6%. But declining saving cannot shield consumption from a slowdown forever. Instead, further growth will rely on the positive wealth effects, which are more skewed towards high-income households than wage gains. The distributional effect is amplified by the tariff burden and the tax support from Big Beautiful Bill, both of which are also heavily skewed in favour of high-earners.

Investment growth continues to rely heavily on AI-related spending on software and computer equipment. Residential investments, on the other hand, have continued to contract partially as a result of still elevated mortgage rates. On a positive note, other types of equipment investment started to recover stronger than we expected at the beginning of the year.

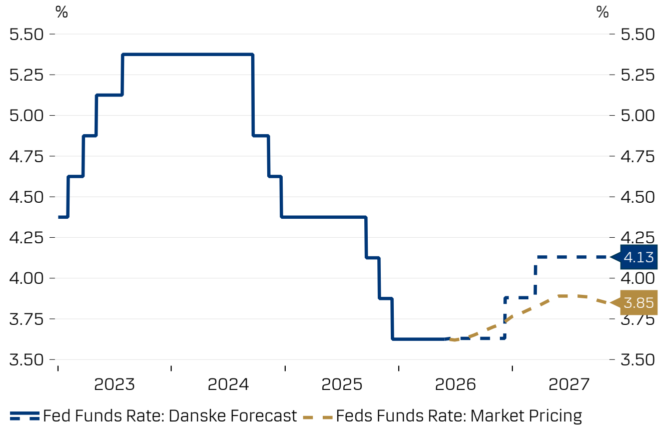
The capex spending is increasingly not just a real growth driver, but also an inflation driver. US import price inflation shot up in early 2026 not just because of energy, but rather because of sharply rising global prices of semiconductors, microchips and other computer equipment. Prices of industrial metals have also continued to rise through the spring.

As such, underlying inflation has remained above target even though unit labour cost growth has slowed down to just 1.2% y/y – well below its pre-pandemic average pace. This puts the Fed in an uncomfortable position, where it might have to accept weaker labour market conditions to maintain price pressures near target. Also, while labour markets are not the primary inflation driver at the moment, the lack of supply growth means that improving growth momentum could risk fuelling overheating faster than in the past.

The Fed has responded to the war in Iran by holding a steady hand. Markets' short-term inflation expectations have risen relatively less than in the euro area, but since April, longer-term expectations have begun to rise concerningly. We assess that the uptick has not been driven by just the prolonging war, but instead nominal growth exceeding expectations.

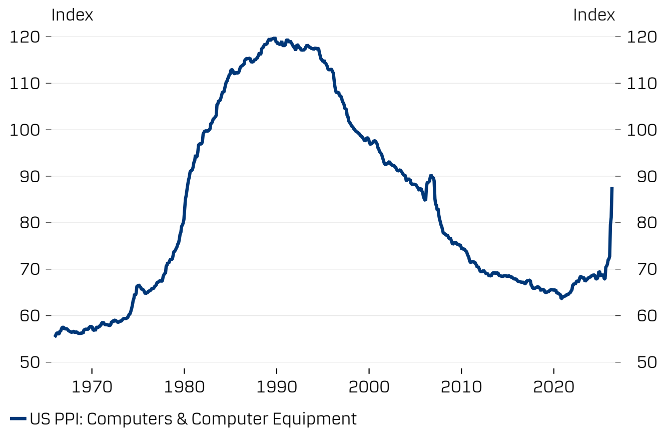
When inflation is driven by stronger demand, rather than just energy supply, the central bank is also under growing pressure to respond. We expect the Fed to turn towards a tightening bias over coming months, and ultimately hike rates in December and March. We expect the policy tightening to provide support for the broad USD as well, and forecast EUR/USD at 1.12 in 12M horizon – significantly lower than before.

We expect the Federal Reserve to hike rates in December and March



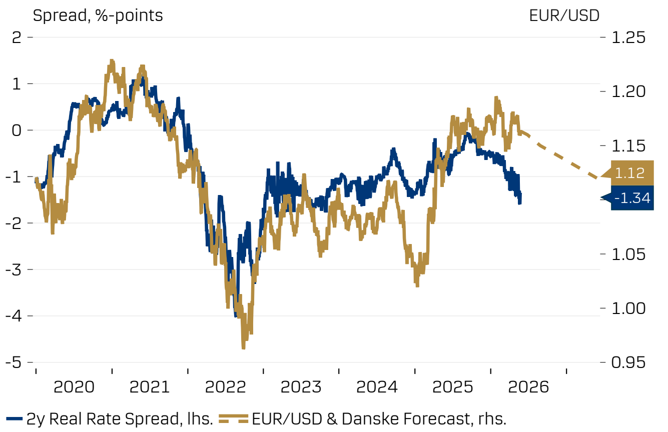
Sources: Macrobond, Federal Reserve, CBOT, Danske Bank

AI-driven investments do not just fuel growth, but also inflation



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

Relatively stronger US growth outlook will push EUR/USD lower towards 1.12



Macrobond, LSEG, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

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