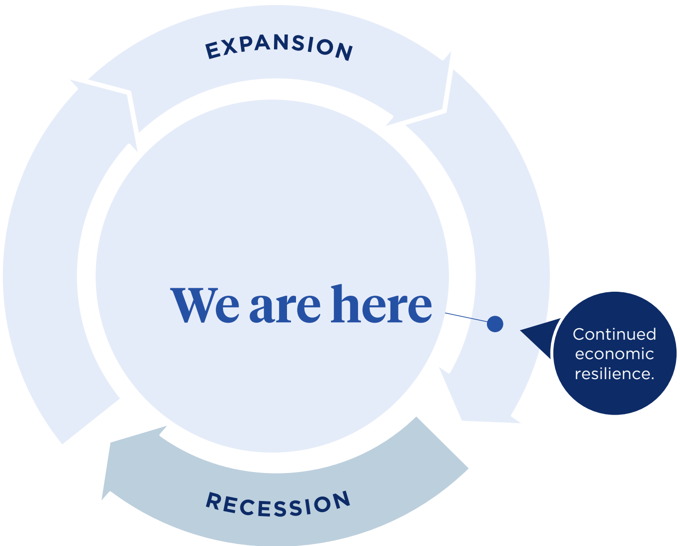
Economic Watch | July 2026

Steady growth amid unsteady conditions



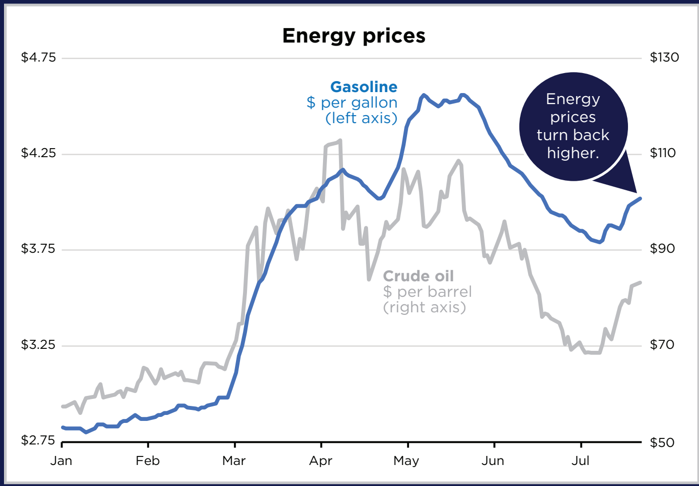
The economy enters the second half of 2026 with growing momentum, supported by a firming labor market and healthy consumer spending. Renewed hostilities in the Middle East have pushed oil prices higher, creating a larger potential headwind to growth than we previously anticipated. At the same time, solid employment gains and persistent inflation could prompt the Federal Reserve to raise interest rates further. While higher energy prices may weigh on economic activity in the months ahead, consumers and businesses have remained resilient in the face of rising costs. Even as the conflict with Iran creates ongoing uncertainty, its impact on growth has so far been modest. Strong consumer spending and robust AI-related investment continue to support economic activity.

Economic Overview

Oil prices resume upward climb

Crude oil prices briefly retreated to near pre-conflict levels following the U.S.-Iran Memorandum of Understanding and the reopening of the Strait of Hormuz. Renewed hostilities with Iran serve as a reminder that geopolitical developments can quickly disrupt energy markets, keeping upward pressure on gasoline prices and inflation.

Although energy prices remain well below their recent peak, the recent rebound in oil suggests inflation's descent may be more gradual than previously anticipated.



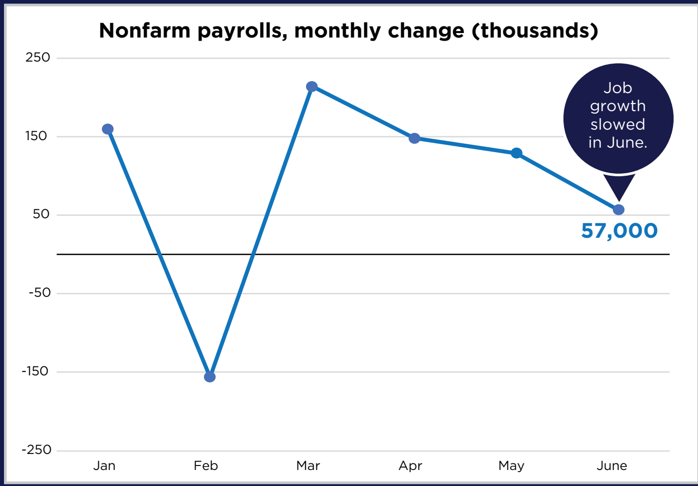
Source: AAA, Energy Information Association

Economic Overview

Hiring cooled in June

Employment gains slowed in June, with payrolls rising by 57,000 after averaging more than 150,000 over the previous three months. Even so, the stronger first-half pace points to a labor market that has improved meaningfully from last year. The unemployment rate edged down to 4.2%, due in part to lower labor force participation.

A healthier labor market has helped cushion consumers from higher gasoline prices, alongside large tax refunds, broader tax relief, and equity market gains. Together, those tailwinds should help keep consumer spending and economic growth on solid footing in the second half.



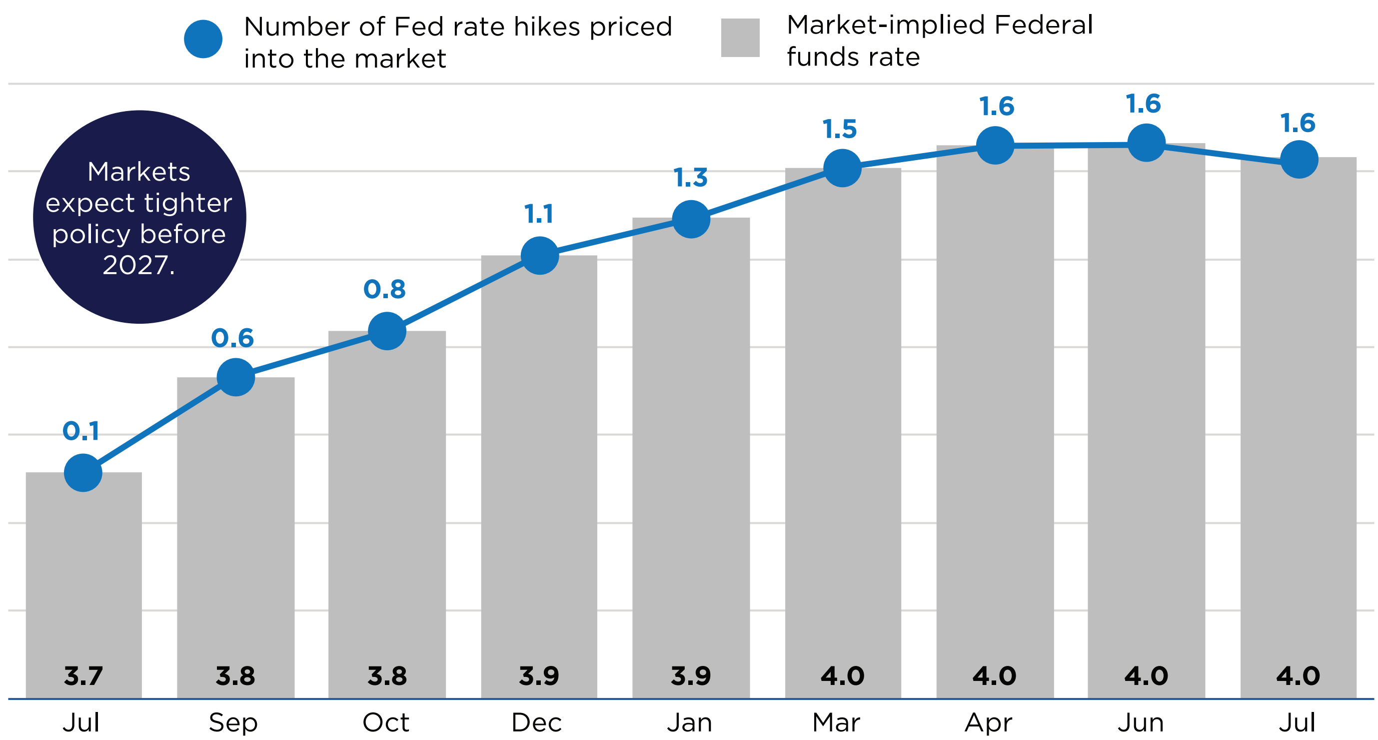
Source: Bureau of Labor Statistics

Outlook: Fed hikes remain on the table

The balance of FOMC opinion remains hawkish as Fed Chair Kevin Warsh reiterates his commitment to price stability. It has become increasingly clear that investors' early expectation of rapid rate cuts under a Warsh-led Fed is unlikely to materialize. Markets currently anticipate roughly 25 basis points of Fed rate hikes before 2027.

Our baseline forecast calls for the federal funds rate to remain unchanged through year-end. Moderating inflation should give the Fed room to keep policy on hold. However, a resilient labor market and still-elevated inflation could ultimately prompt policymakers to raise rates further.

Federal funds rate market expectations (as of July 15, 2026)

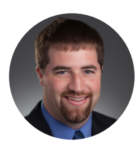


Source: Federal Reserve, Haver Analytics, Nationwide Economics

Contributors

Kathy Bostjancic Chief Economist

Kathy Bostjancic is Senior Vice President and Chief Economist for Nationwide Mutual.



Ben Ayers Senior Economist

Ben Ayers is a Senior Economist with Nationwide Economics, supporting the company's forecasting and macroeconomic analysis functions.

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