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Economists See 2026 Growth Topping 2%

THE OUTLOOK

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Economists have learned to stop worrying about Trumponomics.

After President Trump announced his "Liberation Day" import tariffs in April, -2025 a group of economists regularly surveyed by The Wall Street Journal slashed their forecasts for economic growth in 2025 from over 2% to a measly 0.8%, measured from the fourth quarter of the prior year.

But as many tariffs were scaled back and the impact of the remainder proved more muted than expected, forecasters pushed their estimates back up. Increased investment in artificial intelligence last year also helped drive growth and productivity. Forecasters now expect gross domestic product, adjusted for inflation, grew 2.3% in 2025, according to the Journal's quarterly survey.

It's a similar story for this year. In October 2024, before the election, economists expected 2.1% growth for 2026. They cut that to 1.8% in April, after the tariff announcement. Their average forecast is now back to 2.2%.

The forecasts are based on 74 surveys from academic and business economists received by the Journal between Jan. 9 and Jan. 15, before Trump's latest threat to impose tariffs on countries that resist his demands to acquire Greenland. Not every forecaster answered every question.

"The effective tariff rate will likely peak a little above 13% in the first quarter and that's almost half the pace of April 2nd—but it's still more than four times the pace of a year ago," said KPMG's chief economist Diane Swonk. "It wasn't as bad as it could have been."

Spending by upper-income households was buoyed by high stock-market valuations. That is expected to continue in 2026 given last year's rate cuts by the Federal Reserve, and continued low unemployment.

Another reason for economists' sunnier forecasts are the tax cuts from the One Big Beautiful Bill Act that should result in higher refunds this spring, giving a boost to consumer spending. Nineteen states also raised their minimum wage starting this month.

-Note

The one part of the economy that fared poorly last year was the job market. Monthly job growth averaged 49,000, down from 168,000 in 2024, while the unemployment rate rose to 4.4% in December 2025 from 4.1% a year earlier. The culprit: Cost-conscious businesses turned hesitant about adding new workers due to tariff uncertainties and used artificial intelligence to drive productivity. A crackdown on immigration and retirements dented worker supply.

Looking ahead, economists think the worst has passed for jobs; they expect the unemployment rate, which ended 2025 at 4.4%, to hover around 4.5% in 2026. They see monthly job growth over the next four quarters at 65,000, up from 49,000 in the prior survey. That was due in part to the Federal Reserve's rate cuts late last year, which should support hiring in industries like real estate while unlocking more home buying.

The Fed cut its benchmark interest rate at its last three meetings, most recently in December, to between 3.5% and 3.75%, a three-year low. Economists expect the Fed to deliver one quarter-point rate cut by June and another in the second half of the year, to a midpoint of the federalfunds rate of around 3%.

Jerome Powell's term as Fed chair ends in May, and President Trump has said he expects to nominate someone who will cut rates significantly.

"Risks are skewed towards additional rate cuts this year given labor market weakness, continued downside surprises from [inflation] and a slightly more dovish Fed leadership," said James Knightley, chief international economist at ING.

Another surprise: Inflation ended last year at 2.7%, -Note as measured by the 12-month change in the consumer-price index. That's well below the 3.6% expected in April at the height of the tariffs.

Inflation is expected to ease further to 2.6% by the end of 2026. A separate measure of inflation preferred by the Fed, the personal-consumption expenditures price index, is expected to cool to 2.5% by the end of 2026. Economists see inflationary pressures gradually retreating; they forecast PCE inflation of 2.3% at the close of 2027, still above the Federal Reserve target of 2%.

Economists assigned a 27% probability of a recession over the next 12 months, the lowest in a year. Risks to the outlook include the fight over Fed independence, the potential impact of tariffs on inflation, and sluggish job growth pressuring the finances of lower- and middle-income households.

