

The Outlook for the US Economy in 2026

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Although there was a massive boom in AI-related investments in 2025, policy-induced uncertainties and disruptions to official data releases clouded the picture. With a new year fast approaching, the US economy could find itself on one of three possible paths, with the most likely scenario also being the most positive.

NEW YORK – This has been a bumpy year for the US economy. Although there was a massive boom in AI-related investments, uncertainties caused by President Donald Trump’s tariffs and other policies curtailed growth in the second half of the year, and disruptions to official employment and inflation data as a result of the longest-ever government shutdown have further clouded policymakers’ perceptions. The big question now is what 2026 will bring.

There are three possible scenarios. In the baseline case, the US will suffer a growth recession (meaning below-trend GDP growth) for a few months, followed by a recovery and a gradual decline in the inflation rate toward the US Federal Reserve’s 2% target. Think of this as the Goldilocks scenario. In the second scenario, the economy experiences a shallow recession for a few quarters, followed by a slower return to growth than in the first scenario. And the third scenario features a “no-landing” outcome in which growth remains strong but inflation does not fall toward the target rate.

The Goldilocks scenario is the baseline because market discipline, good advisers, and a still-independent Fed (notwithstanding Trump’s periodic threats) have already forced the White House to blink and climb down from the high tariffs announced on April 2. Since then, the administration has negotiated various trade deals and frameworks featuring more modest tariff increases (often in exchange for

commitments to invest in the United States). As a result, US and global growth have slowed somewhat, but inflation has risen only modestly.

If there is a strong recovery by the middle of next year, it will be driven by several factors: further monetary easing by the Fed; fiscal stimulus that is still in the pipeline (most of the recently legislated spending cuts will not occur until after the 2026 midterm election); strong household and corporate balance sheets; easy financial conditions (owing to high equity prices, low bond yields and credit spreads, and a weaker dollar); and the strong tailwinds from capital expenditures (capex) relating to AI. Moreover, inflation may peak and then start to fall next year as the base effects of tariffs wane, and as technology-driven productivity gains start to reduce costs and unlock new efficiencies.

While the second scenario (a short, shallow recession with a slower recovery) cannot be ruled out, it is less likely than the baseline. The effects of tariffs tend to appear with a lag, which means that US trade policies could still push up inflation, thereby eroding real wages and further weakening consumer confidence. There is already talk of an emerging “[K-shaped economy](#)” in which high-income households thrive and lower-income households struggle. Business confidence also could take a hit, especially if concerns about an AI bubble lead to a large equity-price correction and softer capex. But even in this gloomier scenario, the recession would be short and shallow, because the Fed would cut rates more aggressively, and fiscal authorities may intervene with additional stimulus to support economic recovery.

Finally, the upside, no-landing scenario cannot be ruled out, because some recent indicators suggest that the economy is more resilient than many previously thought. For example, the apparent slowdown in hiring may be driven by a fall in [labor supply](#) – owing to the Trump administration’s crackdown on immigration – and early productivity gains from new or recently adopted technologies. Tight product and labor markets would lift wages and promote overall growth, and core price inflation (excluding food and energy) would remain closer to 3%. In this case, those on the interest-rate-setting Federal Open Market Committee who worry about overheating

would have the upper hand, and the Fed may refrain from cutting rates as long as above-potential growth and above-target inflation persist.

That said, this last scenario is not the baseline (most likely) because other recent indicators do point to economic weakness. Moreover, various geopolitical headwinds – like a worsening of Sino-American trade tensions and overall relations, or a new conflict that causes oil prices to spike – could always push the economy into the recession scenario. Fortunately, such shocks have largely been contained, and one must hope that they will remain so.

If the US economy stages a recovery in 2026, and if the Chinese economy remains resilient and maintains growth close to 5%, the global outlook will improve. Advanced economies and emerging markets alike would be on track for stronger growth compared to what we saw in 2025. Even if important downside risks remain, one can be cautiously optimistic heading into the new year.