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ECONOMY - THE OUTLOOK

Economists Shrug Off Trumponomics, Boost 2026 Growth Outlook Back Above 2%

Last year, economists slashed expectations amid tariffs and other Trump policies. The latest survey shows those concerns have largely receded.

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Economists have learned to stop worrying about Trumponomics.

After President Trump announced his "Liberation Day" import tariffs in April, 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, they 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 wage starting this month, another boon to low-income households.

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 continue to 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 federal-funds 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. Some economists said they expect the pace of rate cuts to pick up after Powell's successor takes office.

"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%, 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%.

One reason for retreating inflation: a smaller contribution from tariffs. They are expected to add 0.2 percentage point to both measures of inflation this year, less than the 0.5 percentage point estimated contribution to PCE inflation last year in the October survey.

Oil is another contributor to falling inflation. West Texas Intermediate crude oil, currently trading around $59 a barrel, is expected to sink to $57.15 in June and end the year at $58.88. The U.S. ouster of Nicolás Maduro in Venezuela isn't seen as a significant factor: Some 70% of respondents see it contributing little to the change in oil prices.

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.

The Supreme Court's impending decision on the legality of President Trump's tariffs also adds uncertainty to the economic outlook, according to survey responses.

"If the Trump tariffs are ruled legal, firms will be forced to raise prices and the Fed will be forced to stop cutting rates. If the tariffs are illegal, the risk of a recession drops," said Joel Naroff, president of Naroff Economics.

"The growth in the economy is being fueled by consumers in the top 20% of the income spectrum, who benefited from a rising stock market that's fueled by massive investments on AI and data centers. Fine for now. But it makes the economy quite vulnerable to any sudden pullback in equity values," said **Bernard Baumohl, chief global economist at the Economic Outlook Group.**

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