

ECONOMIC OUTLOOK

QUARTERLY REPORT – Q2 2026



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Prepared by

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Abstract

The Economic Outlook quarterly report uses the North Carolina Forecast Model developed by Dr. Jeremy Jackson to predict economic trends for the greater Fayetteville metropolitan area, the state of North Carolina, and the nation. The model uses past trends and empirical relationships in data to predict (forecast) future trends. These forecasts focus on key economic indicators such as wage growth, labor force participation, unemployment, and the housing price index. Like all forecast models, this method faces limitations and the specific values in the forecast should not be direct cause for decision-making. Rather, forecasting provides information about what is possible and can help establish expectations.

The Economic Outlook report is released each quarter with updated data from the forecast model.

Introduction

The Lloyd V. Hackley Endowed Chair for the Study of Capitalism and Free Enterprise has developed a forecast model to showcase the economic outlook for the national economy, the state of North Carolina, and the Fayetteville MSA. This report presents the model results for the second quarter of 2026 (Q2 2026). The model run was performed on June, 28 2026.

The forecast focuses on key economic indicators such as wage growth, labor force participation, unemployment, and the housing price index. The data used to create these forecasts come primarily from the St. Louis Federal Reserve. Each figure illustrates the model's projections with each panel showing both the actual forecast and the confidence interval (CI) around the forecasted number. The confidence interval represents the range of values that are possible with 90% confidence. This means that, statistically, we can be 90% confident that the value in the given quarter will fall between the upper and lower CI limits. Interconnected variables are incorporated into the model to demonstrate how national conditions impact the state-level predictions, state-level conditions impact predictions for metropolitan areas. All projections are based on the trends of the data in the past. As explained below, a forecast model does not and cannot account for unforeseen factors and changes that may affect economic performance. For more information about the North Carolina Forecast Model, see the technical appendix at the end of the report.

Limitations

Forecasting has long been a mainstay in the field of economics. It conveys much needed information about the world we live in and trends in economic variables that can be useful for public and private decision-makers. However, it is important to acknowledge the limitations of any forecast. There are many reasons a forecast model may not produce correct predictions. The model uses historical data and past trends to predict (forecast) future trends. As a result, unexpected changes in economic conditions, public policy or other factors may disrupt the accuracy of the forecasts. Similarly, the model cannot incorporate all of the complexity and uncertainty surrounding an economic system.

Executive Summary

The economic outlook for the U.S. economy remains positive. Economic growth is expected to continue supported by growth in consumer expenditures and a falling unemployment rate. Both net investment and corporate profits are expected to grow through 2027. Inflation is expected to continue at its current rate.

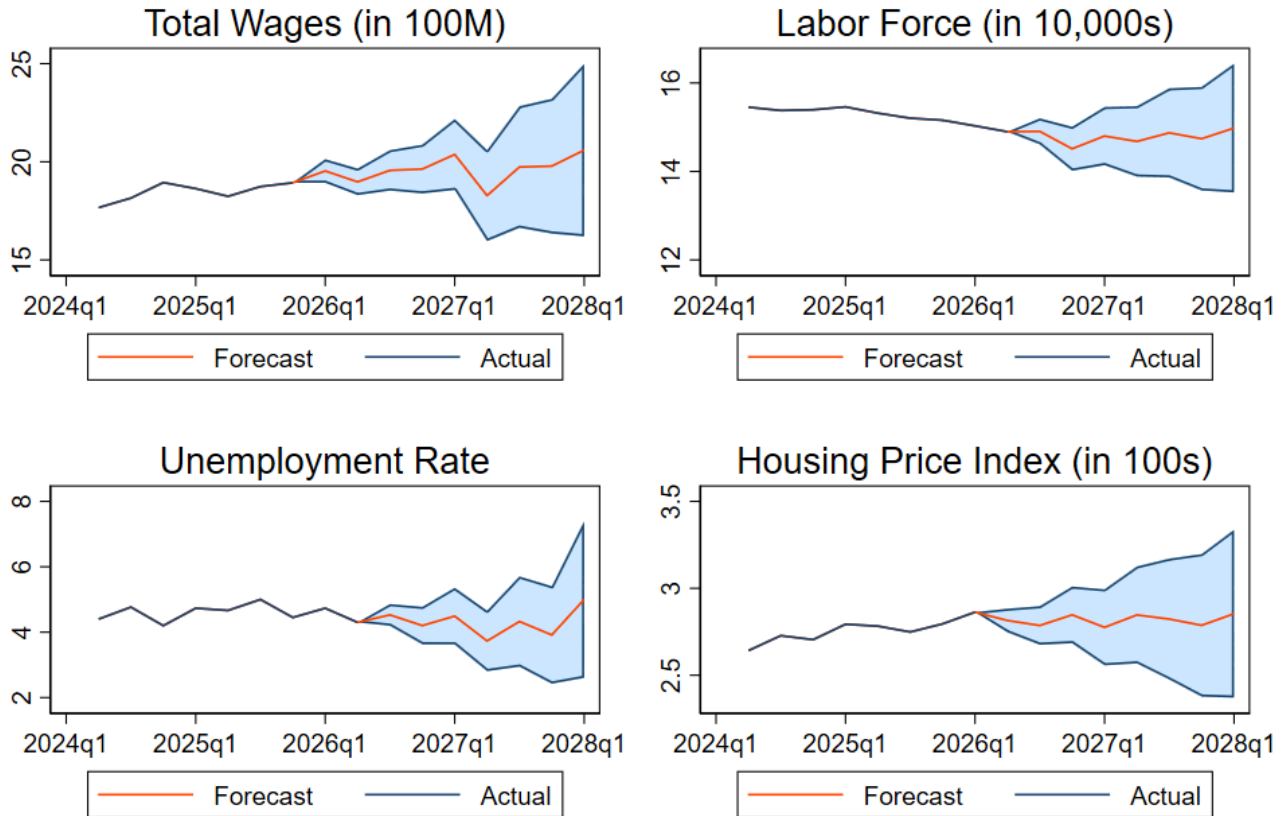
The North Carolina economy continues to perform well, with strong growth in total wages and salaries expected to continue. Gross state product may see a short-term downturn, but the overall trend is towards growth. The labor market will continue to see low unemployment with a possible slight expansion in the labor force. Tax collections continue to follow their historic cyclical pattern.

The outlook for the Fayetteville Metropolitan Area continues to improve. Wages are forecast to continue growing, and unemployment to continue declining. The housing index is expected to hold steady near its current level.

Key Points

- The economic outlook for the national economy is positive. GDP, Consumption, Net Investment, and Profits are expected to grow, while the unemployment rate is expected to decline.
- The outlook for North Carolina is positive, with growing wages and salaries expected. Gross state product may have a slight downturn in the short term but is expected to grow into 2027.
- The outlook for the Fayetteville Metropolitan Area continues to improve.
- Wages in Fayetteville are forecast to grow in 2026.
- Fayetteville housing index is forecast to hold near its current level.
- The Fayetteville unemployment rate is expected to continue its downward trend.

Fayetteville Quarterly Outlook



Wages

Wages in Fayetteville have continued to trend higher through 2024 and into 2025, with a 1 percent increase in Q4 2025. However, the year-over-year level was approximately the same. After decreasing in Q1 and Q2 of 2024, Q3 and Q4 both showed growth, which is expected to continue in 2026 and Q1 2027. Forecasts through 2026 and 2027 follow a historic cyclical trend around a general pattern of slow growth.

Labor Force

Declining trends in the labor force continue, with a 2.74 percent decrease over the past year. The forecast shows a relatively flat labor force from the remaining quarter of 2026 through Q1 2028.

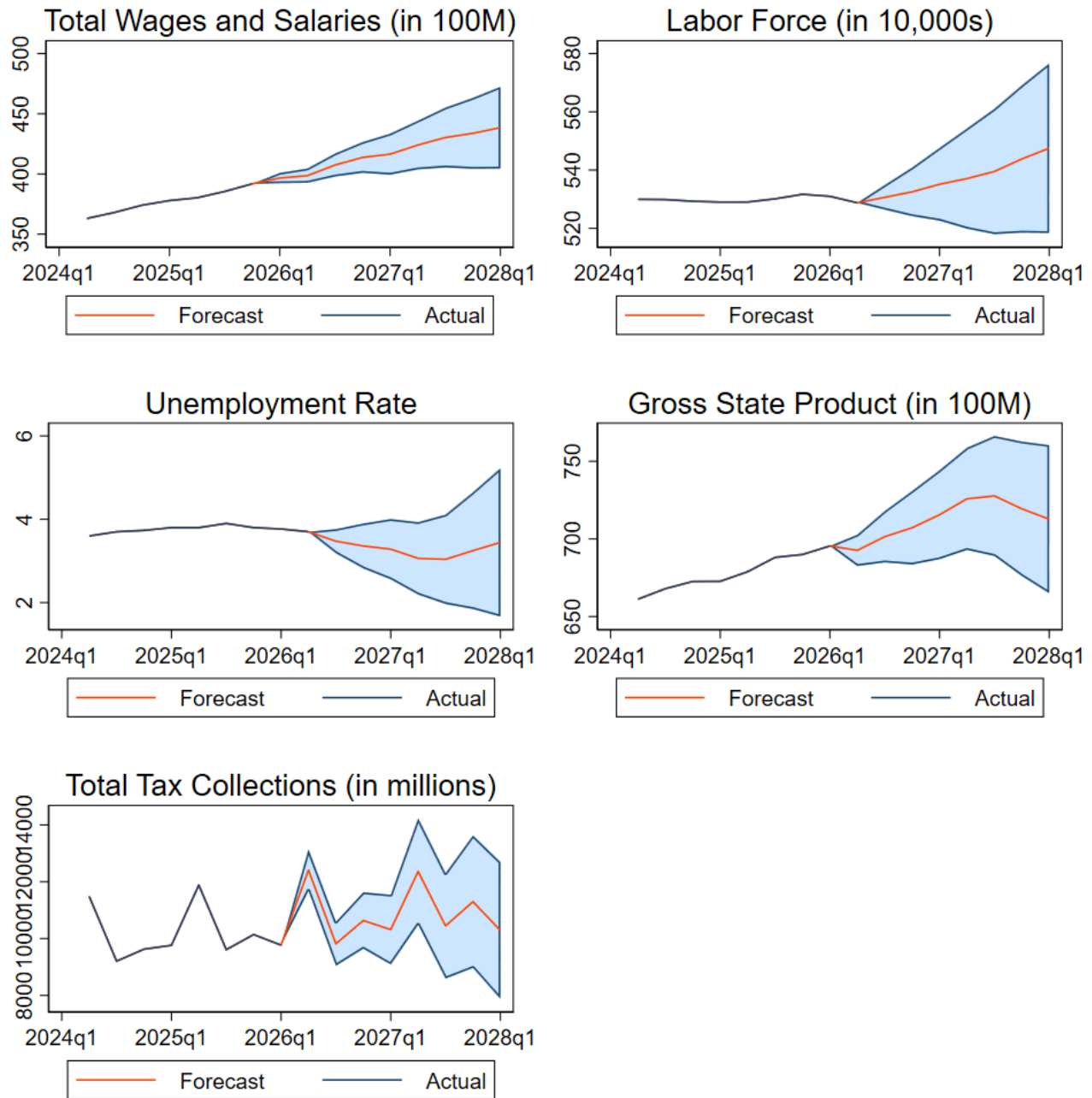
Unemployment Rate

The unemployment rate in Q2 2026 was at 4.3 percent down slightly from 4.73 in Q1. The unemployment rate is currently in a downward trend with cyclical variance. The unemployment rate may approach 4 percent in 2027.

Housing Index

The housing index was up 2.8 percent in Q1 2026 from its Q4 2025 level. Despite this recent growth, the index is forecast to be fairly flat into 2028.

North Carolina Quarterly Outlook



Total Wages and Salaries

Wages in North Carolina were up 1.64 percent in Q4 2025 which contributed to the year-over-year increase of 4.75 percent. Total wages and salaries are forecast to continue this rate of growth into 2028.

Labor Force

The labor force started 2026 with a slight decline in Q1 and Q2. The forecast shows a potential for a growing labor force through 2028. While this supports optimism that the labor force may grow in the short term, the confidence interval around the trend is wide, indicating a possibility of continued decline.

Unemployment Rate

The unemployment rate has fallen slightly in Q1 and Q2 of 2026. In Q2 the rate sat at 3.7 percent. The unemployment rate is forecast to continue the recent declining trend.

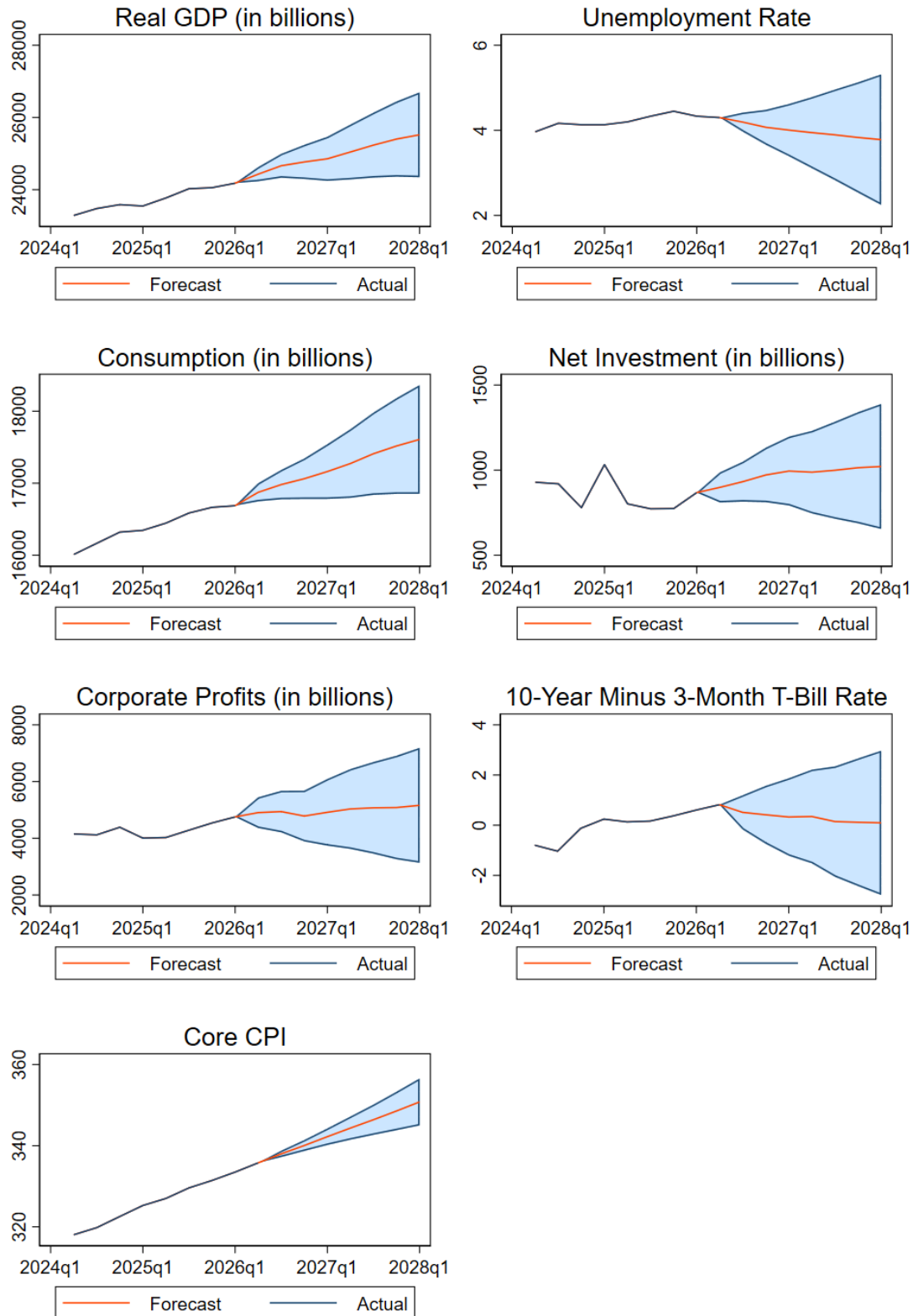
Real Gross State Product

North Carolina's GSP rose by .8 percent in Q4 2025. The year-over-year gain was 3.38 percent. Forecasts show growth in Q4 2025 followed by a slight downturn in 2026 before picking up again in 2027. The forecast shows a slight dip in Q2 2026 before returning to growth into mid 2027.

Tax Revenues

Tax revenues follow a highly cyclical trend with Q1 2026 representing a year-over-year slight gain of .06 percent, demonstrating fairly flat tax receipts. Forecasts show the same trend continuing in the near term.

National Quarterly Outlook



Gross Domestic Product

GDP grew by 0.52 percent in Q1 2026, up from the previous quarter's 0.12 percent. Year-over-year growth was 2.68 percent. The forecast shows steady growth expected through 2027 into 2028.

Unemployment Rate

The Unemployment Rate has entered a downward trend falling to 4.3 percent in Q2 2026. Year-over-year, the unemployment rate is up from 4.2 percent. The forecast shows that the unemployment rate is expected to continue in the downward trend through 2027.

Consumption

Consumption grew by .14 percent in Q1 2026. Year-over-year growth was 2.09 percent, demonstrating a steady rate of growth. Forecasts indicate that consumption is expected to continue its current growth trend.

Net Investment

Net Investment increased rapidly by 12.13 percent in Q1 2026. Year-over-year, however, net investment fell by 18.6 percent, peaking in Q1 2025. Net Investment it is expected to continue its growth pattern through 2027.

Corporate Profits

Corporate Profits increased by 4.73 percent in Q1 2026, having experienced a year of quarterly growth. Year-over-year the gain was 18.65 percent. Forecasts show the growth continuing although at a slower rate.

Yield Spread

The yield spread has remained positive, although very close to zero throughout 2025 and in the first two quarters of 2026. It was negative last in Q4 of 2024. Forecasts indicate the yield curve is expected to decline. A negative yield spread is a predictor of recession.

Core Consumer Price Index

Core CPI grew by 0.68 percent in Q2 2026 with year-over-year growth at 2.68 percent. Forecasts suggest continued inflation at roughly the same rate.

Technical Appendix:

The methodology used in the NC Forecast Model is a nested Vector Autoregression Regression (VAR) system.

VAR is a regression methodology that uses lagged values of endogenous variables (variables that the model predicts and determines) and lagged values of exogenous variables (variables that are determined outside of the model and that the model takes as given) in a system of equations whereby future values of each endogenous variable is predicted based upon its own lagged values and lagged values of the other endogenous and exogenous variables.

VAR has been demonstrated in the literature to be an effective method for forecasting variables that follow certain dynamic patterns. VAR models are data driven and do not rely on theoretical assumptions regarding empirical relationships among the data. VAR has also been found to be effective for forecast models that are relatively small in scale.

The NC Forecast Model is nested in that it starts with a minimal model of the US economy. This model of the U.S. economy has a set of endogenous variables (GDP, unemployment, etc.) and takes commodity prices as exogenous. The relationship amongst these variables are econometrically measured separately from other components of the larger model. A separate model of the NC economy has a set of North Carolina endogenous variables (GDP, unemployment, etc.) and takes as exogenous the variables from the US economy model and commodity prices. This NC economy VAR model is econometrically measured separately from the other components. Lastly, there are three models for each of the major metro areas inside NC: Fayetteville, Charlotte, and Raleigh. Each metro VAR model has a set of endogenous variables and takes variables from the NC economy and US model as exogenous. There is also a VAR model that incorporates commodity prices as endogenous variables.

The overall NC Forecast Model is nested because the metro models are nested inside the state model and the state model is nested inside the model of the U.S. economy.

The model uses quarterly data. Some data used is available daily. Daily data is converted to quarterly by taking a simple average of all data values in that quarter. All data used is downloaded from the FRED database maintained by the St. Louis Federal Reserve Bank. VAR as a method requires that each time series used meet a requirement known as stationarity. Most time series economic data do not meet this requirement; however the differences of the data do meet stationarity requirements. Therefore when we implement the ND Forecast Model we first take the natural logarithm of the data and then take the first difference. For reporting, all data is converted back to original values. All VAR systems inside the model take 3 lags.