United States: Cooling Labor Market Without a Recession, but with Stickier Inflation

Executive Summary

By mid-June, the macroeconomic picture in the United States remains mixed, but already fairly clearly defined. The labor market has cooled noticeably compared with the second half of 2025, but so far has not shown signs of a sharp deterioration. Business activity remains in expansion territory, the consumer looks weaker in terms of sentiment than in actual spending, and the inflation picture has once again become more complicated due to rising energy prices and firmer PCE and CPI data. In other words, the economy's base regime is now closer to a slowdown, but not to a recession, while the main problem for the Fed is not a downturn as such, but the combination of moderate growth and inflation above target.

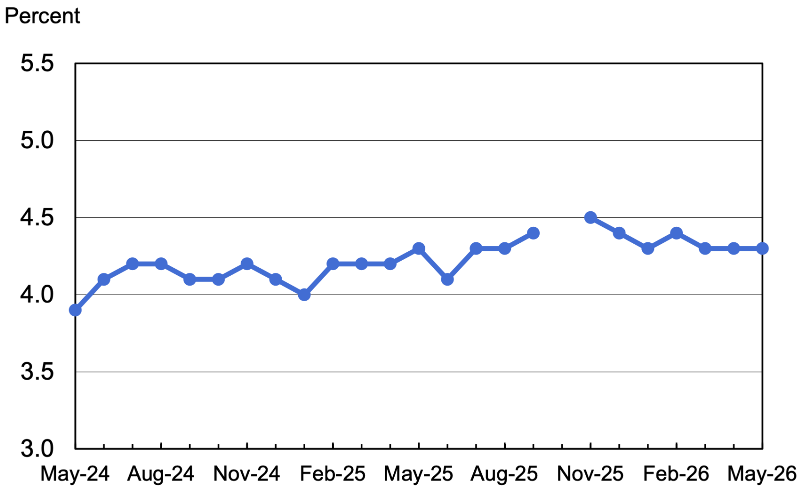
Labor Market: Weaker, but Still Without Signs of Collapse

The latest official BLS report for May 2026 shows that nonfarm payroll employment increased by 172 thousand, while unemployment remained at 4.3%. At the same time, the BLS directly notes that the unemployment rate has held within the 4.3–4.5% range since July 2025, meaning that the labor market is no longer overheated, but is also not in a phase of sharp deterioration. Average hourly earnings in May rose by 0.3% month over month and 3.4% year over year, which means that wage pressure is easing, but has not disappeared.

April JOLTS also confirms cooling rather than collapse. The number of job openings rose to 7.6 million, but at the same time hiring declined to 5.1 million, while the number of quits remained at 3.0 million. Such a combination no longer resembles the overheated labor market of 2022–2023, but it also does not look like a classic recessionary panic with a sharp drop in labor demand. Rather, this is a market where companies have become more cautious in hiring, but there is still no mass layoff cycle.

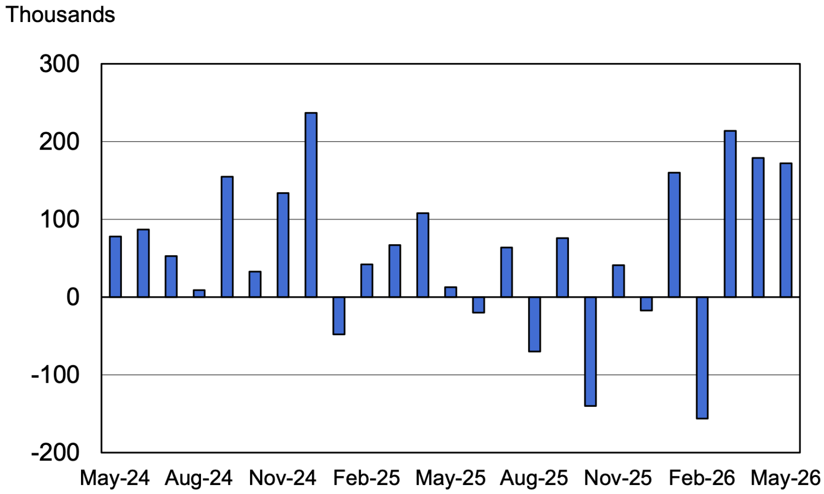
This leads to an important intermediate conclusion: the labor market remains the weakest block in the current U.S. macro set, but the latest data do not yet confirm the scenario that "the recession has already begun." They confirm another scenario — the labor market is adapting to a slower pace of the economy.

Chart 1. Unemployment rate, seasonally adjusted, May 2024 – May 2026



Note: Data for October 2025 were not collected due to the federal government shutdown.

Chart 2. Change in nonfarm payroll employment, seasonally adjusted, May 2024 – May 2026



Business Activity: Services Continue to Pull the Economy, Manufacturing Holds Up

From the PMI/ISM perspective, the U.S. economy looks noticeably better by June than one could have assumed from labor market data alone. ISM Services in May came in at 54.5, the business activity index at 57.7, and new orders at 57.3. This is no longer merely "not bad," but a fairly confident expansion of the services sector. At the same time, the employment component in services remains weak at 47.9, meaning that business continues to increase activity not as quickly as employment.

In manufacturing, the picture is also rather constructive. In May, ISM Manufacturing showed a further expansion in new orders to 56.8, while the production index rose to 54.3. This does not look like a manufacturing downturn. In other words, the U.S. economy is indeed currently living in a regime where the labor market is cooling more noticeably than the real business cycle. For macro interpretation, this is important: in a normal pre-recession phase, manufacturing and services deteriorate synchronously, whereas this is not visible now.

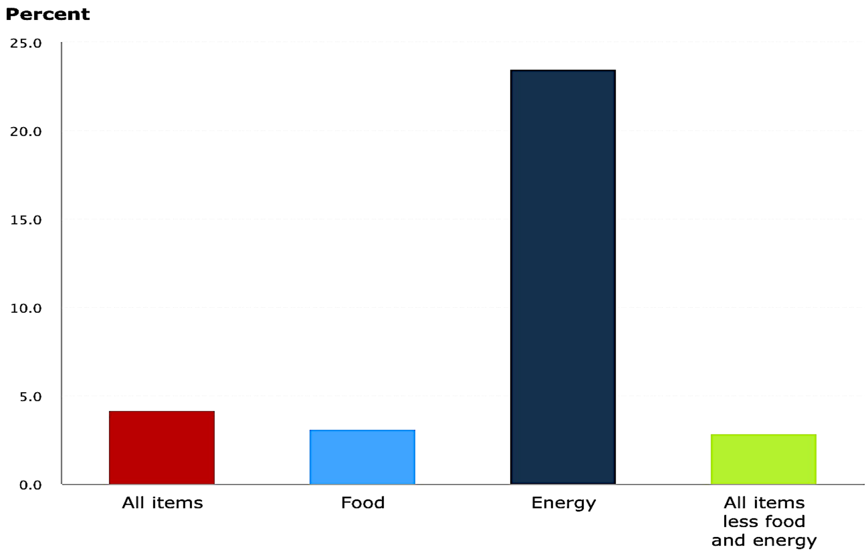
Inflation: The Main Risk Has Strengthened Again

If at the beginning of the year the disinflationary trend still looked relatively under control, by June the statistics had become noticeably more unpleasant. According to BLS data, CPI in May rose by 0.5% month over month and 4.2% year over year, while core CPI rose by 0.2% month over month and 2.9% year over year. The key problem is energy: the energy component increased by 3.9% over the month and 23.5% over the year, while gasoline rose by 7.0% month over month and 40.5% year over year. This means that the inflation risk has once again moved beyond a "pure services" story and has become more dependent on external shocks and the commodity component.

For the Fed, PCE is even more important. According to BEA data, in April headline PCE rose by 0.4% month over month and 3.8% year over year, while core PCE rose by 0.2% month over month and 3.3% year over year. This is still far too high relative to the 2% target, even if the monthly dynamic of the core index looks calmer than that of the headline index. The combination of inflation and a weak level of personal savings is additionally troubling: in April, the personal saving rate came in at only 2.6%, leaving the consumer more vulnerable to price pressure.

It is precisely here that the updated picture turns out to be tougher than the May material: at that time inflation risk still looked more like a threat, whereas now it has once again become part of the actual data. Therefore, the main macro question in the United States is no longer "how fast employment is slowing," but "how long the Fed will have to tolerate growth below trend because of inflation above target."

Chart 3. BLS CPI release (12-month percent change)

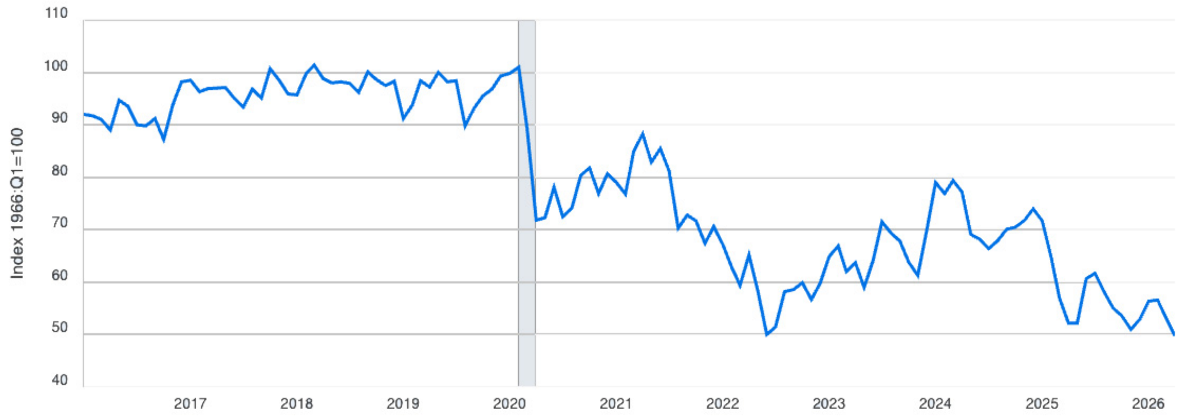


Consumer: Sentiment Is Weak, Spending Is Still Holding Up

The consumer block has also become less clear-cut. According to Census Bureau data, retail sales in May increased by 0.9% month over month and 6.9% year over year, while for March through May they were 5.3% above the year-earlier level. That is, in terms of actual consumer spending, the situation does not yet look weak.

But the soft part of the macroeconomy looks noticeably worse. According to the University of Michigan, the consumer sentiment index fell to 49.8 in June, the current conditions index to 52.5, and expectations to 48.1. These are very weak levels, which historically correspond more to a recessionary perception than to a phase of "normal growth." A classic asymmetry emerges: households feel bad, but continue spending. Such a gap does not always remain stable for long, especially if inflation in gasoline and energy remains high.

Chart 4. FRED: University of Michigan Consumer Sentiment

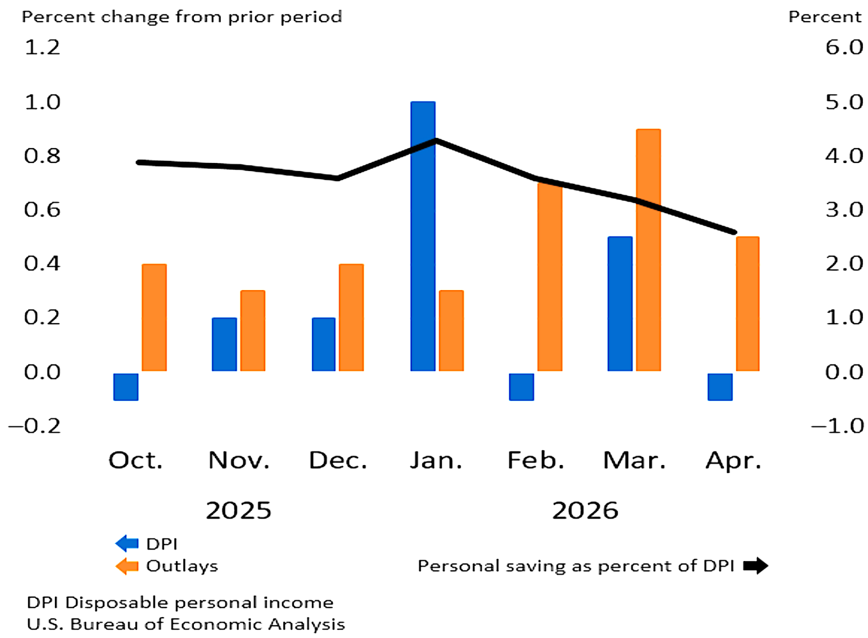


Economic Growth: Weaker Than at the End of 2025, but Positive

According to the second BEA estimate, U.S. real GDP in the first quarter of 2026 grew by 1.6% saar, versus 0.5% in the fourth quarter of 2025. At the same time, growth was revised down from the preliminary estimate of 2.0%, mainly because of weaker investment and consumption. An important nuance is that real final sales to private domestic purchasers rose by 2.4%, meaning that private domestic demand does not yet look weak.

The focus has now shifted to the second quarter. Here, current nowcast models are more supportive of the scenario that "the economy slowed, but did not slide." The New York Fed Staff Nowcast as of June 12 estimated Q2 2026 growth at 2.7%, while the Atlanta Fed GDPNow as of June 17 estimated it at 3.0%. These are not recessionary figures. Yes, nowcast estimates are volatile and are not an official forecast, but taken together they suggest that the U.S. economy remains in growth territory in the summer of 2026.

Chart 5. Disposable Personal Income, Saving, and Outlays



Fed: The Waiting Mode Remains

The Fed's reaction to such a combination of indicators is quite logical. In its statement of June 17, 2026, the FOMC kept the rate in the 3.5–3.75% range. At the same time, the wording itself looks fairly hawkish: the committee stated that the economy is growing at a solid pace, employment is broadly keeping up with the labor force, and inflation remains elevated relative to the 2 percent goal, including because of supply shocks, including energy.

This means that the Federal Reserve does not yet see grounds for moving quickly toward easing. In other words, cooling in the labor market is not enough in itself if the inflation backdrop worsens again. In the current regime, the central bank will most likely tolerate more moderate growth and a weaker labor market so long as it does not lose control over price dynamics.

Conclusion

The baseline assessment by mid-June is as follows: the United States is not in recession, but it is also not returning to a soft comfortable-growth scenario. The labor market has indeed cooled and remains the main candidate for further deterioration. However, manufacturing and services are still signaling continued growth, retail sales are holding up, and Q2 nowcast models remain positive. The problem is not that the economy is already falling, but that inflation is once again preventing the Fed from supporting a slowing cycle.

The final analytical assessment is as follows: the macroeconomic situation in the United States is now a story not about an imminent recession, but about an unpleasant shift toward a less comfortable combination of indicators. The labor market no longer looks strong, but it is not collapsing. Growth remains positive, but unimpressive. Inflation is above target, and energy is once again supporting it. Therefore, it is more reasonable now to talk not about a "crash," but about a phase of heightened macro fragility, where the risk of error in interpreting the data is especially high. In such an environment, portfolio decisions should be made not on the basis of a single weak indicator, but on the basis of the overall set of signals — and for now that overall set points more to a slowdown than to a recession.

DISCLAIMER

This analytical review (the "Review") has been prepared by Rioni Capital LLC solely for informational purposes. The Review does not constitute and must not be construed as an individual investment recommendation, investment advice, offer, solicitation, invitation to make an offer, recommendation to buy, sell, subscribe for, exchange, redeem or hold any financial instrument, enter into any transaction, or implement any investment strategy.

The Review has been prepared on the basis of information obtained from public sources which Rioni Capital LLC considers reliable as of the date of preparation of the material. At the same time, Rioni Capital LLC makes no representation or warranty, express or implied, as to the accuracy, completeness, timeliness or reliability of the information contained in the Review. Any estimates, opinions, assumptions and conclusions contained in the Review reflect the authors' judgment as of the date of publication and may be changed without prior notice.

The information contained in the Review does not take into account the investment objectives, financial situation, level of knowledge, experience, risk tolerance, investment horizon, or any other individual characteristics of any particular person. The financial instruments, transactions, services or strategies referred to in the Review may not be suitable for your investment profile, expectations or objectives. The determination of whether any financial instrument, transaction or strategy is suitable for you must be made by the investor independently or with the involvement of independent professional advisers.

Rioni Capital LLC does not guarantee the achievement of any return, financial result or investment objective. The value of financial instruments and other assets may rise or fall, and an investor may lose part or all of the invested funds. Past investment performance is not indicative of and does not guarantee future results. The state does not guarantee the return on investments. Any commissions, fees, taxes and other charges reduce the overall return on investments.

The Review must not be used as the sole source of information for making any investment, financial, legal, tax, accounting or other decision. Before entering into any transaction, an investor should independently assess all risks and, where necessary, obtain independent legal, tax, financial and other professional advice.

Rioni Capital LLC, its members, officers, employees, representatives and affiliates shall not be liable for any direct or indirect losses, damages, lost profits, expenses or other consequences arising in connection with the use of the Review, the information contained therein, or investment decisions made on the basis of the Review.

Unless expressly stated otherwise in the text of the Review, Rioni Capital LLC undertakes no obligation to update, supplement, revise or otherwise bring the Review up to date after the date of its publication, including in the event of new information, changes in market conditions or subsequent events.

The information contained in the Review is protected by copyright and is subject to the laws of Georgia. All rights to the Review belong to Rioni Capital LLC. Full or partial reproduction, distribution, publication, transfer to third parties, adaptation, public quotation in substantial volume, or any other use of the materials of the Review is permitted only with the prior written consent of Rioni Capital LLC, except as expressly permitted by applicable law. In any permitted citation, reference to Rioni Capital LLC as the copyright holder and source of the material is mandatory.

© Rioni Capital LLC. All rights reserved.
Tbilisi, Georgia, 2026