

The Economy

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TL;DR

The US economy is facing a challenging stagflationary mix as persistent energy shocks from the Middle East war drive inflation higher and depress consumer sentiment to historic lows [Consumer Squeeze]. Despite these headwinds, a surprisingly resilient labor market with surging job openings is keeping wage growth sticky [Labor Market Resilience]. This combination has forced a dramatic pivot at the Federal Reserve under newly sworn-in Chairman Kevin Warsh, with policymakers now openly discussing interest rate hikes rather than cuts [Fed Policy Pivot].

The Hawk's Return: The Fed's Policy Pivot

The Federal Reserve is rapidly shifting its stance from potential rate cuts to active rate-hike discussions as energy-driven inflation reaccelerates under new leadership.

"These conditions indicate that monetary policy is not restraining the economy... I am increasingly concerned that higher interest rates could be necessary later this year to fully restore price stability and appropriately balance both sides of the Fed's dual mandate." — Lorie Logan, Dallas Fed President via [Fed Policy Pivot]

"...the sense within the Fed... has shifted away from a shared expectation for an interest rate cut later this year to a growing feeling that a long hold at the current rate setting, or even a hike in borrowing costs, may be in order." — Ann Saphir, Reuters via [Fed Policy Pivot]

This policy pivot is occurring just as Chairman Kevin Warsh takes the helm after being sworn in at the White House in late May, completely upending the political expectations of lower interest rates that accompanied his nomination. With the April PCE inflation gauge jumping to **3.8%** and wholesale producer prices soaring by **6.0%**, policymakers are realizing that geopolitical energy shocks are embedding themselves deep within domestic supply chains, prompting traders to price in a **57%** chance of a rate hike by December <https://finance.yahoo.com/economy/policy/article/kevin-warsh-sworn-in-as-fed-chair-as-inflation-worries-raise-the-volume-on-possible-rate-hikes-164303530.html>.

What to watch: Watch whether Chairman Warsh aligns with the growing hawkish consensus or attempts to maintain a neutral stance in upcoming FOMC policy meetings.

A Tightening Labor Market Defies High Rates

A highly resilient, "low-hire, low-fire" job market is maintaining upward pressure on wages and giving the Fed little room to maneuver.

"Pair the strong ADP print with the surge in job openings from the April JOLTS report yesterday, and there is a strong argument that the labor market is actually tightening." — Seeking Alpha Analysis via [Labor Market Resilience]

"Job openings jumped to their highest level in nearly two years in April, reaching 7.618 million vacancies according to the latest Job Openings and Labor Turnover Survey (JOLTS)." — Jennifer Nash, Advisor Perspectives via [Labor Market Resilience]

Even though actual hiring matching has slowed, employers are holding onto workers and posting a massive volume of vacancies, culminating in **7.618 million** openings in April

<https://www.advisorperspectives.com/dshort/updates/2026/06/02/jolts-report-job-openings-april-2026>. This structural tightness keeps private hiring strong, with **122,000** jobs added in May, while annual pay growth remains sticky at **4.4%** and continues to fuel service-sector demand

<https://seekingalpha.com/article/4911498-may-adp-employment-report-strongest-job-gains-in-over-year>.

What to watch: Watch whether upcoming employment reports confirm this private sector hiring acceleration or show a divergence between job openings and actual hiring.

The Squeezed Consumer and the Retail Mirage

Rising energy costs are turning nominal retail gains into an inflationary mirage while driving consumer confidence to historic lows.

"The war, which began Feb. 28, has disrupted traffic through the Strait of Hormuz and squeezed global crude supplies, keeping fuel costs elevated even after a temporary ceasefire..." — Colleen Cabili, Quartz via [Consumer Squeeze]

"...households are burning through their refunds at a quicker clip than in prior years, with the acceleration most pronounced among those at the lower end of the income scale." — Colleen Cabili, Quartz via [Consumer Squeeze]

Although top-line retail sales figures look positive, they are heavily distorted by a **12.3%** surge in gasoline prices that has severely pinched lower-income households

<https://qz.com/us-retail-sales-april-2026-gas-prices-iran-war-051426>. This persistent pressure has pushed consumer sentiment down to a preliminary reading of **48.2** in May, while real personal consumption expenditures decelerated to a **1.6%** annualized pace in the opening quarter

<https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-state-of-the-us-consumer>.

What to watch: Watch whether real personal consumption expenditures continue their downward trajectory as fuel prices remain elevated.

What surprised us

- **The Warsh Irony:** Newly sworn-in Chairman Kevin Warsh took office in late May under explicit political expectations to lower interest rates [Fed Policy Pivot]. Instead, he immediately walked into an energy-driven inflation spike that has his own voting members openly talking about rate hikes [Fed Policy Pivot].
- **The Tax Refund Mirage:** Households experienced a fatter-than-normal tax refund season, with average checks running **\$323** ahead of the previous year [Consumer Squeeze]. Yet, this fiscal cushion was instantly vaporized by surging food and fuel costs, leaving lower-income families burning through cash buffers faster than in previous years [Consumer Squeeze].
- **The Low-Hire, Low-Fire Paradox:** Job openings spiked by **731,000** in April, but actual matching is incredibly slow, with hires falling to **5.1 million** [Labor Market Resilience]. Companies are aggressively posting roles but hoarding their existing staff, keeping layoffs at exceptionally low levels [Labor Market Resilience].

Appendix: Findings

The U.S. Consumer Squeeze: Middle East Energy Shocks, Retail Mirages, and Record-Low Sentiment

The U.S. Consumer Squeeze: Middle East Energy Shocks, Retail Mirages, and Record-Low Sentiment

U.S. households are facing severe financial strain as the war with Iran—which began on February 28, 2026—continues to disrupt global crude supplies and drive up energy costs. Although nominal retail sales rose for a third consecutive month in April 2026, reaching \$757.1 billion (up 0.5% from March), this growth is largely an inflation-fueled mirage. Rising gasoline prices, which surged 12.3% in April, and escalating food costs accounted for the bulk of these gains. Stripping away gasoline station receipts, the retail sales increase narrows to a modest 0.3%, the weakest performance in three months.

This intense pressure has pushed consumer confidence to historic lows. The University of Michigan's Consumer Sentiment Index fell to a record low of 49.8 in April and declined even further to a preliminary reading of 48.2 in May 2026. While households initially benefited from a fatter-than-normal tax refund season—with the average IRS check through late April running \$323 ahead of 2025—lower-income families are burning through these cash buffers at a rapid pace. Real personal consumption expenditures, which power more than two-thirds of U.S. economic output, decelerated to a 1.6% annualized pace in the first quarter of 2026, down from 1.9% in late 2025.

The consumer's financial squeeze is a critical headwind as the Federal Reserve navigates sticky inflation. The details of the Fed's policy response are explored further in [\[\[fed-policy-pivot-kevin-warsh-rate-hike-chatter\]\]](#).

"The war, which began Feb. 28, has disrupted traffic through the Strait of Hormuz and squeezed global crude supplies, keeping fuel costs elevated even after a temporary ceasefire... PNC Financial economists, drawing on proprietary spending data, found that households are burning through their refunds at a quicker clip than in prior years, with the acceleration most pronounced among those at the lower end of the income scale." — Colleen Cabili, Quartz

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Sources

- U.S. retail sales rise for third straight month in April 2026
- An update on US consumer sentiment: Gloomier outlook ahead of sunnier days

U.S. Labor Market Resilience: Job Openings Surge and Private Hiring Accelerates

U.S. Labor Market Resilience: Job Openings Surge and Private Hiring Accelerates

The U.S. labor market is demonstrating surprising resilience and tightening, presenting another hurdle for the Federal Reserve's inflation fight. Two major reports released in early June 2026 show that labor demand remains highly robust despite elevated interest rates and geopolitical energy shocks.

First, the April 2026 Job Openings and Labor Turnover Survey (JOLTS), released on June 2, 2026, showed that job openings jumped by 731,000 to **7.618 million** vacancies. This represents the largest monthly rise since 2021 and the highest vacancy level since May 2024, far surpassing expectations of 6.860 million. The surge was heavily concentrated in professional and business services (+668,000). However, actual hires fell to 5.1 million (-419,000), resulting in a "low-hire, low-fire" pattern where vacancies are plentiful but actual matching is slow and layoffs remain extremely low at 1.7 million (a 1.1% rate). This has pushed the job openings-to-unemployed ratio to **1.03 jobs per unemployed worker**, the highest since January 2024.

Second, the May 2026 ADP National Employment Report, released on June 3, 2026, showed that private sector hiring accelerated to a more than one-year high. Private employers added **122,000 jobs** in May, the highest monthly gain since January 2025. Services led the way (+114,000), driven by Education & Health Services (+57,000). Crucially, annual pay growth has stabilized and remains sticky above 4%, coming in at **4.4%** in May. This robust demand and wage growth are driving Treasury yields higher and bolstering the case for the Fed to keep rates high or even raise them, as explored in [\[\[fed-policy-pivot-kevin-warsh-rate-hike-chatter\]\]](#).

The consumer-side impact of these dynamics and the rising cost of living are detailed further in [\[\[us-consumer-squeeze-energy-shocks-inflation-mirage\]\]](#).

"The May ADP employment report's strength has helped to drive Treasury yields higher this morning... The data this morning are supportive of a familiar macro narrative: the labor market is no longer weakening, while inflationary pressure is elevated and becoming more entrenched. Pair the strong ADP print with the surge in job openings from the April JOLTS report yesterday, and there is a strong argument that the labor market is actually tightening." — Seeking Alpha Analysis

"Job openings jumped to their highest level in nearly two years in April, reaching 7.618 million vacancies according to the latest Job Openings and Labor Turnover Survey (JOLTS). This represents an increase of 731,000 from the previous month, the largest monthly rise since 2021. The latest reading was significantly higher than the expected 6.860 vacancies." — Jennifer Nash, Advisor Perspectives

Sources

- Job Openings Jump to Near 2-Year High in April
- May ADP Employment Report: Strongest Job Gains In Over Year (SPX)

The Federal Reserve's Policy Pivot: From Expected Cuts to Rising Rate Hike Chatter

The Federal Reserve's Policy Pivot: From Expected Cuts to Rising Rate Hike Chatter

The Federal Reserve is undergoing a major policy pivot and leadership transition just as inflationary pressures reaccelerate. Kevin Warsh was officially sworn in as Chairman of the Federal Reserve on Friday, May 22, 2026, in an East Room ceremony at the White House—the first Fed Chair sworn in at the White House since Alan Greenspan in 1987. While President Donald Trump nominated Warsh in January with the explicit expectation of lowering interest rates, the macroeconomic landscape has changed dramatically. Due to Middle East energy shocks linked to the Iran war, the Fed's preferred Personal Consumption Expenditures (PCE) inflation gauge jumped to 3.8% in April from 3.5% in March, while wholesale producer prices (PPI) soared 6.0% in April.

Confronted with five years of above-target inflation and a resilient labor market (as discussed in [\[\[us-labor-market-resilience-job-openings-adp-may-2026\]\]](#)), several Fed policymakers are abandoning expectations of rate cuts in favor of keeping rates higher for longer, or even raising them. The current federal funds rate is held in the 3.50%-3.75% range. Dallas Fed President Lorie Logan (a voting FOMC member) openly stated on June 3, 2026, that she is "increasingly concerned" that rate hikes may be needed later in the year to restore price stability, arguing that current monetary policy is not sufficiently restrictive. New York Fed President John Williams took a more neutral stance, stating that rates are "exactly in the right place" and that he sees "no obvious direction" for future policy. Meanwhile, traders have priced in a 57% chance of at least one rate hike by December 2026.

The Fed's June 3, 2026, Beige Book report reinforced this cautious outlook, noting that Middle East conflict-related energy costs are the primary driver of inflationary pressures, with spillovers cascading into shipping, packaging, groceries, and fertilizer.

"These conditions indicate that monetary policy is not restraining the economy... I am increasingly concerned that higher interest rates could be necessary later this year to fully restore price stability and appropriately balance both sides of the Fed's dual mandate." — Lorie Logan, Dallas Fed President (via The Edge Singapore)

"The sense within the Fed, based on public comments from policymakers as well as the minutes from its April 28-29 meeting, has shifted away from a shared expectation for an interest rate cut later this year to a growing feeling that a long hold at the current rate setting, or even a hike in borrowing costs, may be in order." — Ann Saphir, Reuters (via The Spokesman-Review)

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Sources

- Kevin Warsh sworn in as Fed chair as inflation worries raise the volume on possible rate hikes
- Logan says Fed may need to raise interest rates this year
- US economic activity and inflation both up in recent weeks, Fed survey shows