Global Economics Wrap-Up: May 29, 2026

Global Economics
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Joseph Briggs
+1(212)902-2163 |
joseph.briggs@gs.com
Goldman Sachs & Co. LLC

Andrew Tilton
+852-2978-1802 |
andrew.tilton@gs.com
Goldman Sachs (Asia) L.L.C.

Katya Vashkinskaya
+44(20)7774-4833 |
katya.vashkinskaya@gs.com
Goldman Sachs International

Jessica Rindels
+1(972)368-1516 |
jessica.rindels@gs.com
Goldman Sachs & Co. LLC

Sarah Dong
+1(212)357-9741 | sarah.dong@gs.com
Goldman Sachs & Co. LLC

- Sizing the impact of war-driven supply shortages:
  - We evaluate the economic impacts of a risk scenario where a persistent closure of the Strait of Hormuz leads to binding supply constraints.
  - We expect price increases will be sufficient to clear oil markets, but the GDP hit could exceed the 1-1.5% implied by our severely adverse price scenario if oil constraints became binding.
  - Stockouts of non-oil commodities (such as fertilizers and chemicals) are a greater risk given that markets are less global and many downstream industries rely on regional inputs.
  - There are three reasons why we would expect a contained GDP hit from non-oil supply shortages:
    - 1) The implied drag falls sharply when we exclude inputs that account for a trivial share of production.
    - 2) Reallocation of scarce inputs from low- to high-value-add uses also lowers the impact.
    - 3) Even modest substitutability across inputs lowers it further.
  - After taking these channels into account, we estimate the direct headwinds from non-oil supply disruptions could lower global GDP by 0.4-0.5%, with downstream supply impacts moderately amplifying these impacts.
- Inflation pulse check:
  - April core inflation surprised to the downside in the UK, Japan, and Canada.
  - Our April sequential trimmed core inflation measures ticked up in the Euro area (3.0% vs. 1.0%) but declined in Japan (-0.3% vs. 1.7%), the UK (0.8% vs. 1.8%), the US (PCE, 2.1% vs. 2.8%), and Canada (1.8% vs. 1.9%).
  - On a Q4/Q4 basis, we forecast that yoy core inflation will accelerate to 3.1% by end-2026 in the UK, 2.6% in the Euro area and Japan, and 2.2% in Canada.
  - We expect core PCE inflation to slow in the US to 2.9% on a Q4/Q4 basis,

reflecting continued disinflationary impulses from shelter inflation and a fading tariff boost, which offset the spillovers from higher energy and commodity prices.

- Global central bank policy update:
  - Central bank easing cycles have come to a halt over the past three months due to the war in Iran:
  - 0% of DM central banks have lowered rates, while 4% have raised rates (on a GDP-weighted basis).
  - 18% of EM central banks have lowered rates, while 6% have raised rates (on a GDP-weighted basis).
  - Our end-2026 policy rate forecasts remain dovish relative to market pricing.
- We present a model for predicting the outcome of the 2026 World Cup.
  - Our model says that Spain has a 26% probability of winning the trophy, followed by France at 19%, Argentina at 14%, Brazil at 8% and England at 5%.

US Economics
5/29/26 11:46AM ET

- Our Q2 GDP forecast stands at +2.0%:
  - Personal spending rose 0.5% in April. Real personal spending rose 0.1%, reflecting a 0.2% increase in real services spending but a 0.1% decline in real goods spending.
  - New orders for durable goods rose 7.9% in April, and core capital goods shipment increased by 0.4%.
  - Sales of new single-family homes declined 6.2% in April and the level of new home sales in March was revised down.
  - The goods trade deficit narrowed by $2.9bn to $82.4bn (seasonally adjusted) in April, reflecting an $8.5bn increase in good exports and a $5.6bn increase in goods imports.
  - Wholesale inventories increased by 0.6% and retail inventories increased by 0.5% in April.
- Commentary from Fed officials has been hawkish over the past two weeks, though we see rate hikes as less likely than market pricing implies:
  - The April FOMC minutes reported that "a majority" of participants noted that "some policy firming would likely become appropriate if inflation were to continue to run persistently above 2 percent."
  - Governor Waller said that he could "no longer rule out rate hi the road if inflation does not abate soon", especially if inflatio showed "signs of becoming unanchored".
  - Governor Cook said this week that "the risks remain tilted tow inflation" and "I am prepared to raise rates, if the expected di not appear in a timely manner."

- Business surveys have been surprisingly resilient since the war began and still look solid even after adjusting for nominal bias:
  - Price changes can bias survey levels because some respondents think about shipments and orders in dollar rather than real unit terms.
    - The prices received components are currently the highest since 2022.
  - Our price-adjusted manufacturing survey tracker has risen 4.2pt to 52.3 (vs. 54.7 unadjusted) since December, while our price-adjusted services survey tracker has risen 0.1pt to 51.8 (vs. 52.2 unadjusted).
- We expect strong business investment growth this year:
  - AI spending will boost equipment and structures investment and should pick up for software and R&D as well, boosting total capex growth by nearly 3pp.
    - This will boost measured GDP growth by 0.1pp because much of the equipment is imported and semiconductor investment is undermeasured.
  - The impact of new investment tax incentives is showing up in the most exposed categories and should be worth about 3pp in 2026.
  - Two policy-related headwinds—tariffs and the end of manufacturing facility subsidies—should diminish this year.
- Higher oil prices should have little net impact. There has been little change in energy investment, and there tends to be some offsetting drag on equipment investment.

Europe Economics
5/29/26 12:28PM ET

- Country data suggests somewhat lower Euro area inflation in May:
  - French headline HICP inflation in May was 2.8%yoy, slightly below our and consensus expectations of 2.9%yoy.
  - Spanish flash HICP inflation came in at 3.6%yoy in May, slightly below our expectations of 3.7%yoy and in line with consensus.
  - Italian flash HICP inflation came in at 3.3%yoy in May, in line with our and consensus expectations.
  - German headline HICP inflation was 2.7%yoy in May, below consensus expectations of 2.8%yoy.
    - But close to what regional CPI data suggested.
  - Incorporating the country releases, we downgrade our tracking and now see Euro area May headline inflation at 3.16%yoy and core at 2.40%yoy.
- Mixed Q1 GDP revisions in the Euro area:
  - Q1 GDP growth was revised down to -0.1%qoq in France (vs. flat previously).
  - But it was revised up to +0.3% in Italy (from +0.2% before).
  - Our past-quarter tracking is broadly aligned with the official prints elsewhere.

- We initiate a preliminary area-wide tracking for Q2 at a firm +0.1%qoq.

Asia/EM Economics

5/29/26 3:01AM ET

- Asia/EM policymakers tilted more hawkish, partly reflecting hedging against the risk of a more protracted energy supply shock
  - Bank of Korea kept its policy rate on hold at 2.5% (in line with consensus) with a hawkish tilt and two dissenting votes. We continue to expect two 25bp rate hikes in 2H of 2026, once in Q3 (most likely July) and Q4, under our baseline scenario of energy market stabilization by end-June.
  - India's government has announced several retail fuel price hikes so far in May, reducing implicit subsidies
  - New Zealand's central bank held its policy rate at 2.25%, in line with consensus. Both the statement and the press conference signaled a clear hawkish pivot. We expect two 25bp hikes in July and September.
  - Turkey tightened policy by lowering loan growth caps.
  - Hungary's central bank kept its policy rate unchanged at 6.25%, with dovish guidance.
- China – Rising prices and upstream industry profits; path to RMB internationalization
  - April's industrial profits increased by 26% yoy, mainly driven by upstream sectors such as chemicals and non-ferrous mining. Industrial revenue also increased 5.8% yoy.
  - With policy communications pointing to stronger support for RMB internationalization, we took a deep dive into the topic. While progress has been made, the RMB's share of global financial markets remains small. A meaningful expansion in its role will require improvements in financial infrastructure, liquidity, risk-management tools, and RMB asset supply.

GDP Forecast Tracker: GS vs. Consensus

Real GDP Growth:	Annual Average					Q4/Q4	
	2025	2026		2027		2026	
	Actual*	GS	Consensus	GS	Consensus	GS	Consensus
DMs							
US	2.1	2.1	2.1	2.1	2.0	2.1	2.0
Euro Area	1.5	0.7	0.8	0.9	1.3	0.5	0.7
Germany	0.3	0.7	0.6	1.0	1.2	0.8	0.7
France	0.9	0.4	0.7	0.6	0.9	0.1	0.5
Italy	0.7	0.6	0.5	0.5	0.7	0.2	0.3
Spain	2.8	2.1	2.2	1.5	1.8	1.5	1.7
Japan	1.1	0.5	0.6	1.0	0.8	0.8	0.8
UK	1.4	1.2	0.8	1.3	1.1	1.2	0.9
Canada	1.7	1.5	1.2	2.0	1.7	2.0	1.6
Australia	2.0	2.0	2.0	2.2	1.8	1.5	1.5
EMs							
China	5.0	4.7	4.6	4.7	4.4	4.6	4.6
India	7.5	6.2	6.5	7.1	6.4	5.8	6.2
Brazil	2.3	1.9	1.8	1.8	1.8	2.9	2.0
South Korea	1.0	2.5	2.5	1.7	2.0	2.1	2.4
Mexico	0.5	1.2	1.2	1.7	1.8	1.0	1.3
World	2.8	2.5	2.5	2.7	2.6	2.3	2.4

*GS estimate where actual full-year data is not yet available.
Note: Global GDP growth rates aggregated using market exchange rates. IMF forecast used for India 2027 consensus value.

Source: Bloomberg, Goldman Sachs Global Investment Research