

US ECONOMICS ANALYST

Mid-Year Inflation Outlook: Oil and AI vs. Wages and Rent

- Core PCE inflation has reaccelerated this year, partly reflecting a combination of energy price passthrough, AI-related price pressures amplified by measurement issues, and financial services inflation driven by higher equity prices. In this week's *Analyst*, we take stock of the inflation outlook.
- The US-Iran agreement has reduced upside risks to inflation from higher energy prices. Our commodity strategists lowered their oil forecasts to \$80 on average in 2026Q4 and \$75 in 2027 (vs. \$90 and \$80 previously), which implies about 0.2pp and 0.05pp less upward pressure on headline and core PCE inflation this year than our previous assumptions. In the near term, lower gasoline prices will translate into soft headline inflation prints in June, and our preliminary headline CPI and PCE estimates for June stand at -0.13% and 0.07%, respectively. The prices of several other non-oil Gulf exports have also declined meaningfully in recent days. We now estimate that commodity prices will deliver a roughly 0.4pp boost to year-over-year core PCE inflation through 2026Q4.
- AI-related pressure on memory prices has pushed up computer software and accessories inflation, generating an especially large boost to core PCE because of measurement distortions. We expect monthly software and accessories inflation to slow from about 4-5% in recent months to about 0.6% by 2026Q4, reflecting a sharp slowdown in memory price inflation in recent months. We also expect higher memory prices to increase phone and computer inflation throughout 2026, though with smaller contributions to overall core PCE than software and accessories. Taken together, we estimate that AI-related price pressures will boost year-over-year core PCE inflation by about 0.4pp in December 2026 (with a peak of 0.6pp earlier in 2026H2, vs. 0.25pp already realized) and core CPI inflation by about 0.1pp.
- We continue to have a benign outlook for underlying core inflation outside AI-related components and energy price passthrough. We expect rent growth to slow to below its pre-pandemic pace, reflecting soft new-tenant rent growth. We also expect slow nominal wage growth to put downward pressure on core nonhousing services inflation, though we expect healthcare inflation to remain around its current pace as prices continue to catch up to costs. Our indicators of persistent inflation risk and pipeline inflation pressures suggest that underlying inflation risk rose slightly in recent months but remains modest.
- We forecast year-over-year core PCE inflation of 3.2% in December 2026,

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followed by a slowdown to 2.2% by December 2027 as the AI and energy effects wane. In the near term, we expect strong increases in lagged equity prices to boost monthly core PCE inflation by 0.10pp in May and 0.05pp in June. We expect core CPI—which is less affected by AI measurement issues and stock market swings—to slow to 2.6% year-over-year by December 2026 and 2.2% by December 2027. We see risks to our forecast skewed to the upside on net, particularly if the situation in the Middle East deteriorates or if higher inflation expectations cause businesses to raise prices beyond increases in their input costs.

Mid-Year Inflation Outlook: Oil and AI vs. Wages and Rent

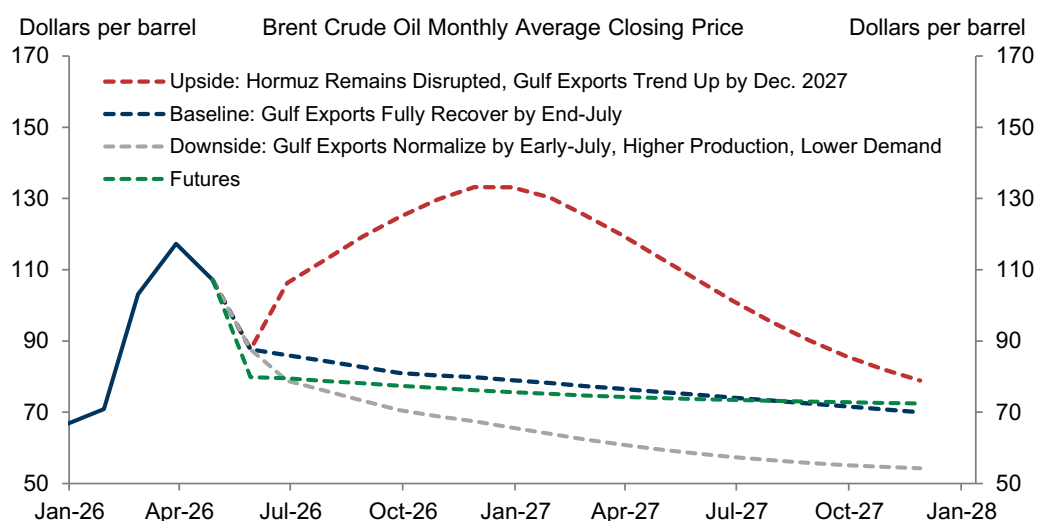
Core PCE inflation has reaccelerated this year, partly reflecting a combination of energy price passthrough, AI-related price pressures amplified by measurement issues, and higher equity prices. In this week's *Analyst*, we take stock of the inflation outlook.

Relief From the US-Iran Agreement

The US-Iran agreement and recent decline in oil prices have reduced upside risks to inflation. Our commodity strategists lowered their oil forecasts to \$80 on average in 2026Q4 and \$75 in 2027 (vs. \$90 and \$80 previously). In an upside scenario where the Strait of Hormuz remains disrupted through 2027, they expect Brent would rise to \$130 in 2026 and average \$105 in 2027. In a downside scenario with greater flows and stronger supply, they expect Brent would average just under \$70 in 2026Q4 and just under \$60 in 2027 (Exhibit 1).

Our strategists' new forecasts imply about 0.2pp and 0.05pp less upward pressure on headline and core PCE inflation by year-end than our previous assumptions. In the meantime, the recent decline in Brent and gasoline prices will translate into soft headline inflation prints in June, and our preliminary headline CPI and PCE estimates for the month stand at -0.13% and 0.07%, respectively.

Exhibit 1: Our Oil Strategists Now Expect Brent to Average \$80 in 2026Q4 and \$75 in 2027 (vs. \$90 and \$80 Previously)

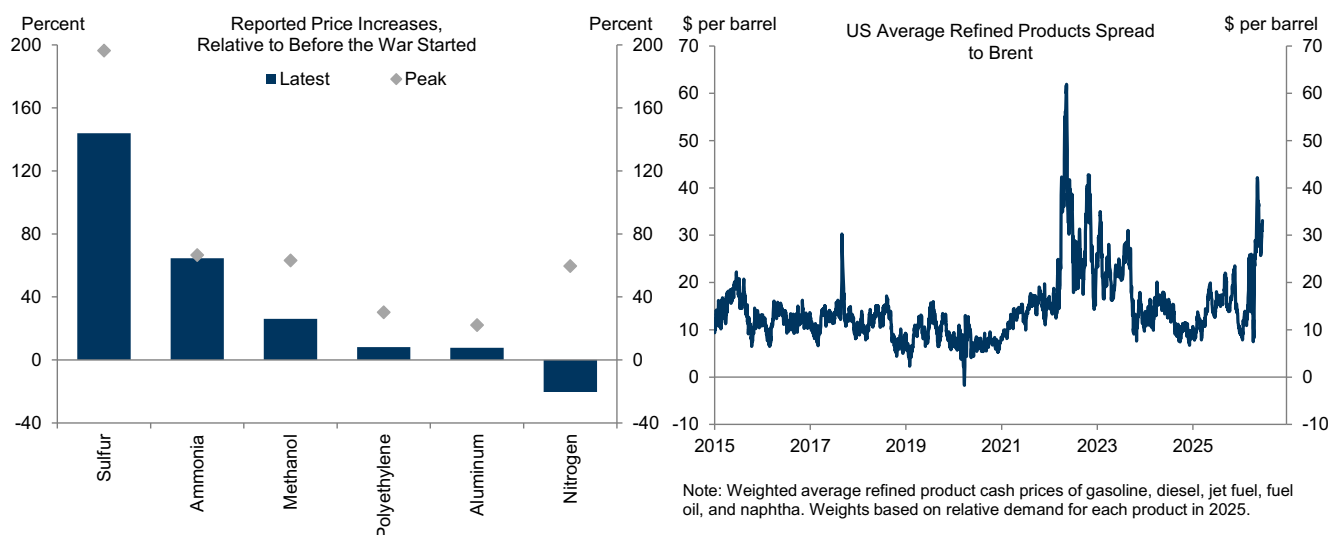


Source: Goldman Sachs Global Investment Research, Department of Energy

Beyond oil, we incorporate two other developments related to the conflict in the Middle East. First, the prices of non-oil Gulf exports like nitrogen and polyethylene have declined after rising sharply after the start of the war. Several products' prices are now close to their pre-war levels, though others remain elevated—particularly sulfur and ammonia (left side of Exhibit 2). Second, margins on refined oil products like jet fuel and gasoline rose significantly in May in the US, though they have since retraced some of their earlier increases (right side of Exhibit 2). Goods transportation costs also rose meaningfully in May, with the relevant PPI increasing a bit more than its typical relationship with oil prices would imply. Going forward, we expect refined product

spreads and goods transportation costs to normalize gradually as supply conditions in the Middle East improve.

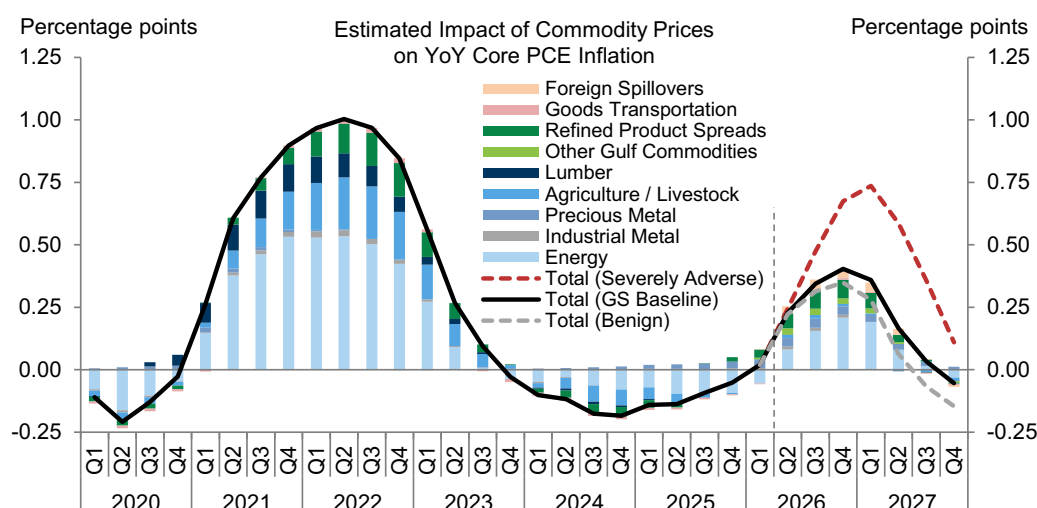
Exhibit 2: Beyond Oil, the Prices of Several Gulf Exports Have Retraced From Their Recent Peaks, and Some Are Now Close to Pre-War Levels; US Refined Product Spreads Rose Sharply in May



Source: Goldman Sachs Global Investment Research, Bloomberg

In Exhibit 3, we update our commodity price passthrough framework, including our oil strategists' latest forecasts, changes in goods transportation costs, and refined product spreads. We assume that refined product spreads gradually normalize over the next couple of months and that transportation costs behave in line with their usual relationship with oil. Taken together, we estimate that commodity prices will deliver a roughly 0.4pp boost to year-over-year core PCE inflation this year, with a smaller sequential boost in 2026H2.

Exhibit 3: We Estimate That Higher Commodity Prices Will Deliver a Roughly 0.4pp Boost to Year-over-Year Core PCE Inflation This Year, Which We Expect to Fade in 2027

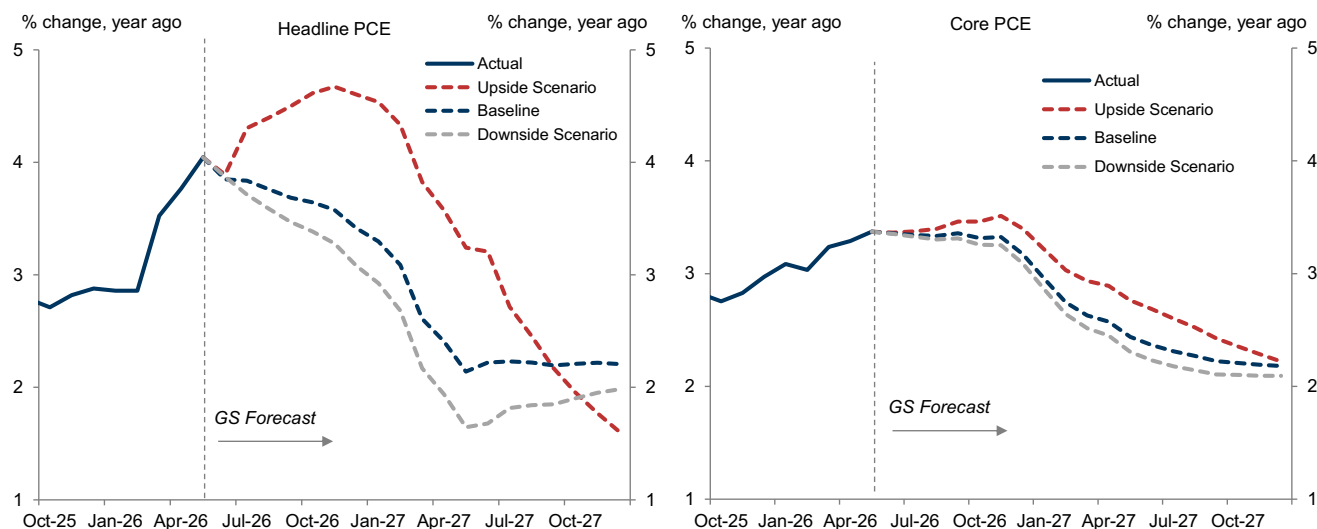


Source: Goldman Sachs Global Investment Research

Exhibit 4 shows the implications of our commodity strategists' updated oil price scenarios for headline and core PCE inflation. In our baseline forecast, we expect

year-over-year headline PCE inflation to start normalizing in June. In their upside scenario, we estimate a boost to core PCE inflation of 0.2pp and to headline PCE inflation of 1.1pp relative to our baseline. In their downside scenario, we estimate a drag on core PCE inflation of 0.1pp and on headline PCE inflation of 0.4pp relative to our baseline.

Exhibit 4: We Expect Headline Inflation to Slow From Here; Our Strategists' Upside Scenario Would Add Another 1.1pp to Headline PCE and 0.2pp to Core PCE, While Their Downside Scenario Would Subtract 0.4pp and 0.1pp



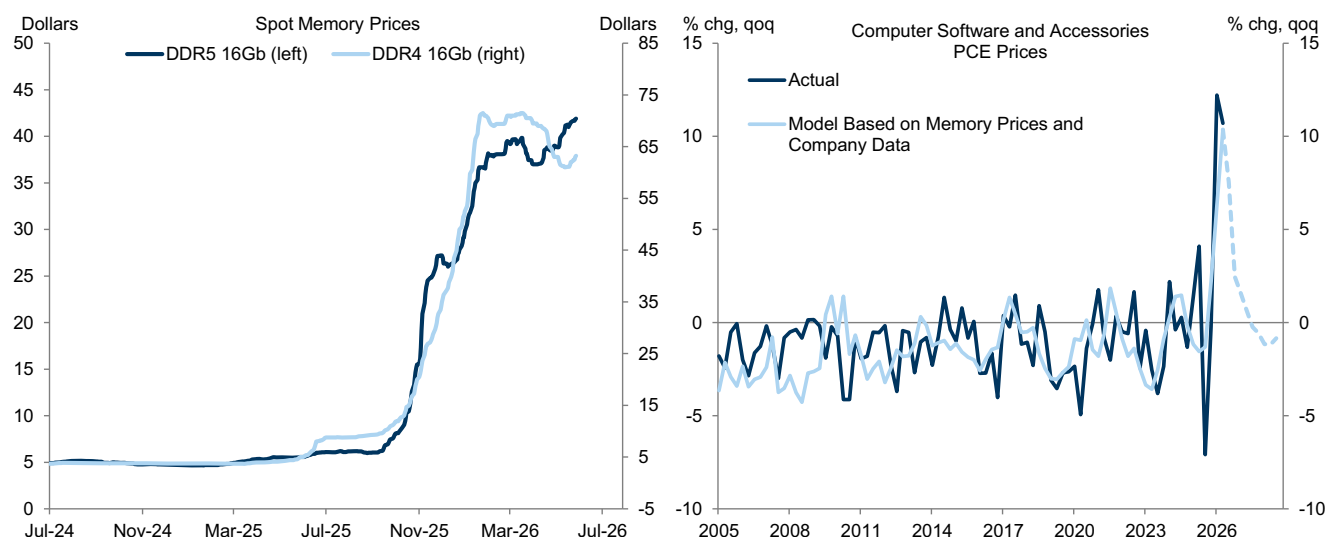
Note: Includes GS estimate for May PCE based on CPI, PPI, and import prices. Baseline assumes oil prices average \$88 in June and \$86 in July before declining to \$80 by 2026Q4. Downside scenario assumes oil prices average \$88 in June and \$84 in July before declining to \$70 by 2026Q4. Upside scenario assumes oil prices average \$88 in June and peak at \$130 in 2026 before declining to \$105 on average in 2027.

Source: Goldman Sachs Global Investment Research, Department of Commerce

The Inflationary Impulse From AI: Larger for PCE Than for CPI

The AI infrastructure boom led to a spike in memory prices as companies sought to buy chips to equip data centers. Prices for some types of memory rose 10–15x in a few months between 2025Q4 and 2026Q1 (left side of Exhibit 5). More recently, spot memory prices have remained very high relative to pre-2025Q4, but the pace of increases has slowed significantly. Contract prices faced by electronics manufacturers can lag spot prices by a few months, but the pace of increases has slowed for those too.

Higher memory prices have pushed up computer software and accessories inflation, generating an especially large boost to core PCE because of measurement distortions. While this component measures both software and accessories prices, in practice most of its variation can be explained by changes in memory prices that largely affect accessories costs (right side of Exhibit 5). We model computer software and accessories inflation using high-frequency memory prices, data from memory manufacturers, and our equity analysts' forecasts. Our model suggests that software and accessories inflation will slow from about 4–5% month-over-month in recent months to about 0.6% by year-end, reflecting the recent slowdown in memory price inflation.

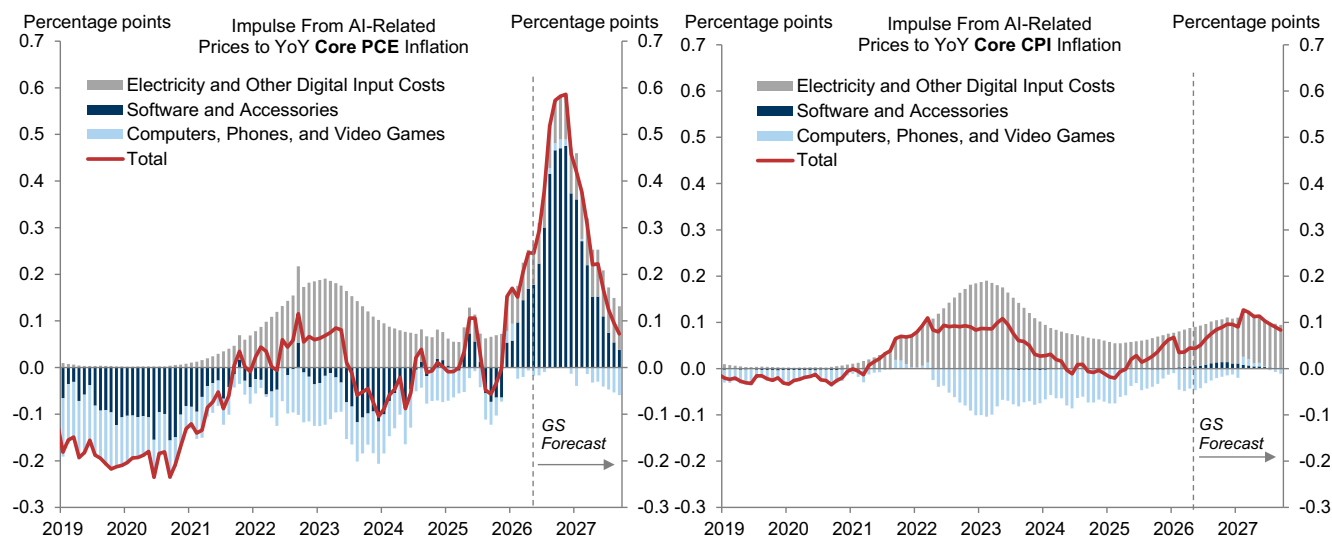
Exhibit 5: Memory Prices Rose Sharply in 2025Q4 and 2026Q1 but Have Stalled Since; As a Result, We Expect Computer Software and Accessories Inflation to Slow in Coming Months


Source: Goldman Sachs Global Investment Research, Trendforce, Department of Commerce

Computer software and accessories prices were flat in the May CPI report, suggesting that some of this slowdown is already underway. That said, this component is not seasonally adjusted by the BLS, and it has slowed by about 3pp relative to its prior trend in each of the last three Mays (reversing consistent accelerations earlier in the year), so much of the slowdown this May was likely residual seasonality. Going forward, we expect software prices to increase by 2-3% for the next couple of months and to slow further for the rest of the year.

We also expect higher memory prices to boost phone and computer inflation throughout 2026 as manufacturers pass through higher production costs. That said, the boost to core PCE should be smaller than that of software and accessories, in part because these categories receive smaller weights in PCE. Taken together, we estimate that AI-related pressure will boost year-over-year core PCE inflation by about 0.4pp in December 2026 (vs. 0.25pp so far, and a 0.6pp peak in 2026H2). We estimate a much smaller boost to core CPI inflation, of about 0.1pp, largely because CPI does not suffer from the same methodological issues as PCE.

Exhibit 6: We Expect AI-Related Price Pressures to Boost Year-over-Year Core PCE Inflation by 0.4pp by December 2026, With a 0.6pp Peak Earlier in H2; We Expect AI-Related Price Pressures to Boost Core CPI by About 0.1pp by December 2026

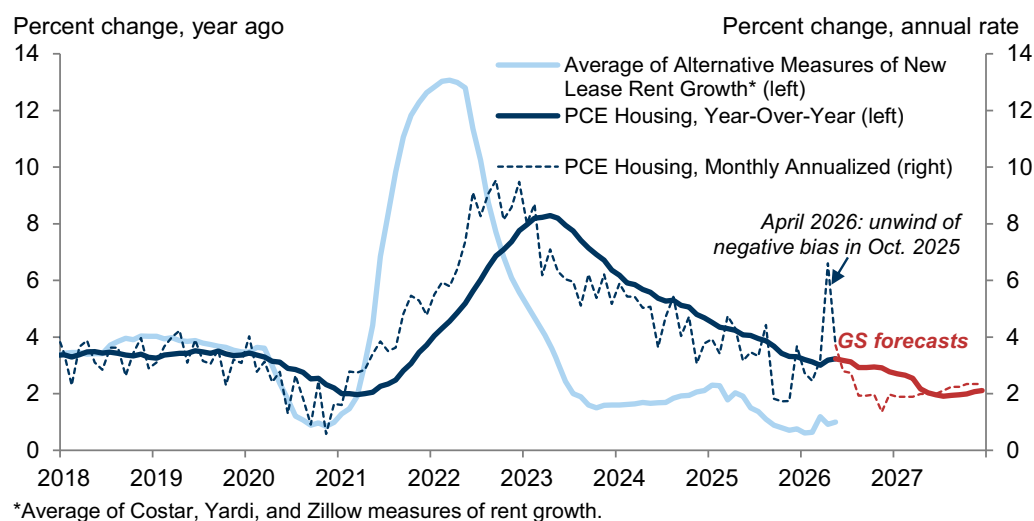


Source: Goldman Sachs Global Investment Research, Department of Commerce, Department of Labor

Disinflation From Rent and Wages

We continue to see a relatively benign outlook for core inflation outside of AI pressure and energy passthrough. We expect rent growth to slow to below its pre-pandemic pace, reflecting continued softness in new-lease rent growth (Exhibit 7). Monthly housing inflation has been volatile recently, spiking in April as the negative bias from last year's government shutdown unwound. Housing prices also rose at an above-trend pace in May, but most of the acceleration relative to the prior trend was concentrated in the Northeast, which we suspect reflected statistical noise. Going forward, we continue to expect housing inflation to slow and to settle at a pace roughly 1-1½pp below the pre-pandemic pace.

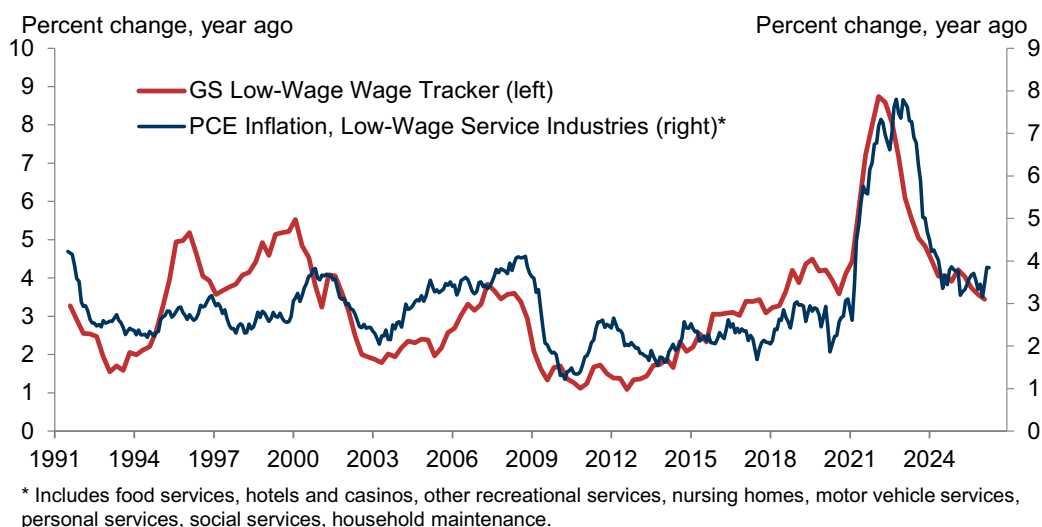
Exhibit 7: We Expect Housing Inflation to Continue to Slow This Year, Reflecting Soft New-Tenant Rent Inflation



Source: Goldman Sachs Global Investment Research, Department of Commerce, CoStar, Yardi, Zillow

We also expect slower wage growth to put downward pressure on nonhousing services inflation, excluding airfares—which are largely driven by oil price changes—and portfolio management—which are driven by equity prices. Wage growth has continued to slow this year, and we expect wage-sensitive PCE services to follow suit over the next several months. We think that the World Cup has likely temporarily boosted hotel prices but expect that to fade as the reservation window moves past the tournament's end.

Exhibit 8: Slower Wage Growth in Labor-Intensive Services Should Provide an Additional Disinflationary Impulse This Year



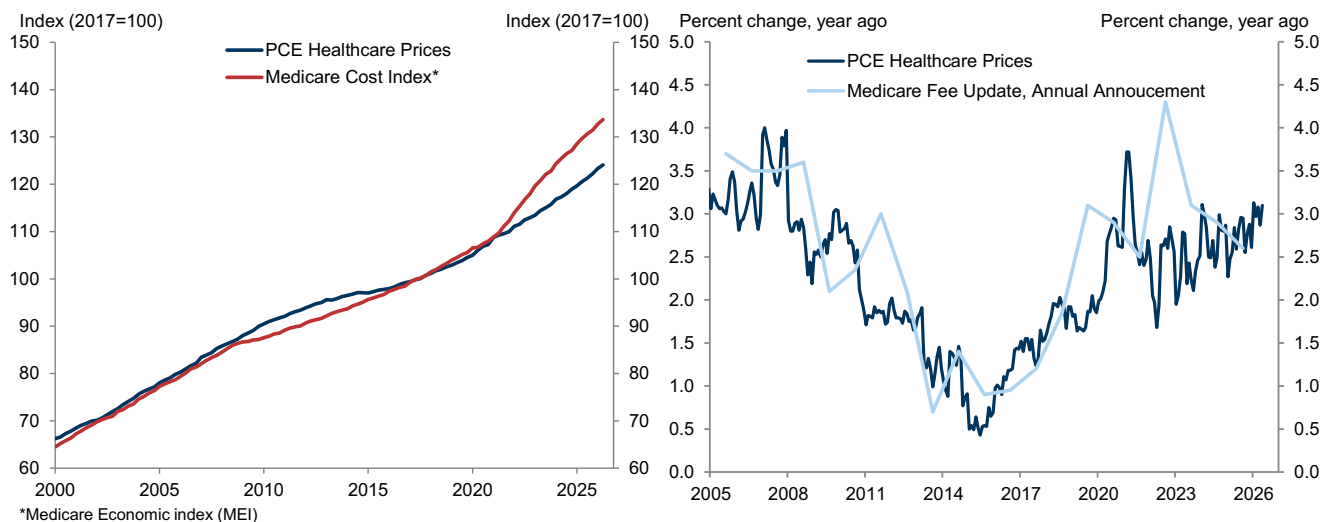
Source: Goldman Sachs Global Investment Research, Department of Commerce

One exception within nonhousing services is the healthcare services category, which we expect to remain elevated this year. Healthcare services costs, as measured by the Centers for Medicare & Medicaid Services' Medicare Economic Index, have increased by 26% since 2020Q1, while consumer prices have increased 18%, making healthcare the

last major remaining example of “catch-up inflation.” At the same time, we expect slowing wage growth for healthcare workers and a smaller Medicare fee update this year—an important anchor point in negotiations between healthcare providers and insurance companies—to keep healthcare inflation around its current 3% pace, roughly 1-1½pp above the pre-pandemic pace.

With housing and healthcare receiving roughly equal weight in core PCE, we expect the overshoot in healthcare inflation to roughly offset the similarly-sized undershoot in housing inflation, leaving their combined contribution around the pre-pandemic level.

Exhibit 9: Continued Catch-Up to Costs Will Put Upward Pressure on Healthcare Inflation, Though a Smaller Medicare Fee Increase (and Slowing Wage Growth) Should Limit the Upside



Source: Goldman Sachs Global Investment Research, Department of Commerce, Department of Health and Human Services

Broader Inflation Risk

Our indicators of persistent inflation risk and pipeline inflation pressures suggest that underlying inflation risk rose slightly in recent months but remains modest. Exhibit 10 shows that our measure of pipeline pressures based on the signal from the PPIs accelerated in recent months, but most of this reflected price increases in energy and related products.

Exhibit 10: Our Tool or Tracking Input Cost Pressures Across the Supply Chain Accelerated Somewhat in Recent Months, but This Largely Reflected Energy Passthrough

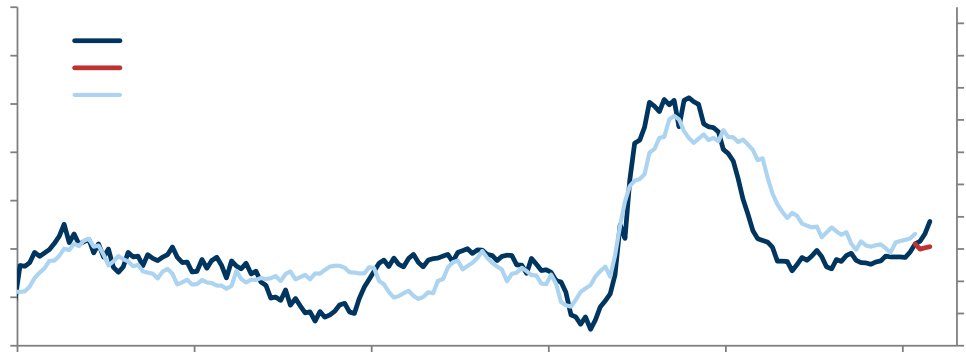


Exhibit 11 shows our persistent inflation risk indicator, which combines key signals including slack and wage pressures, medium- and long-term inflation expectations, and the breadth of inflation. Our indicator suggests that persistent inflation risk has increased somewhat in recent months but remains broadly in line with its 2000s level and significantly below the aftermath of the pandemic.

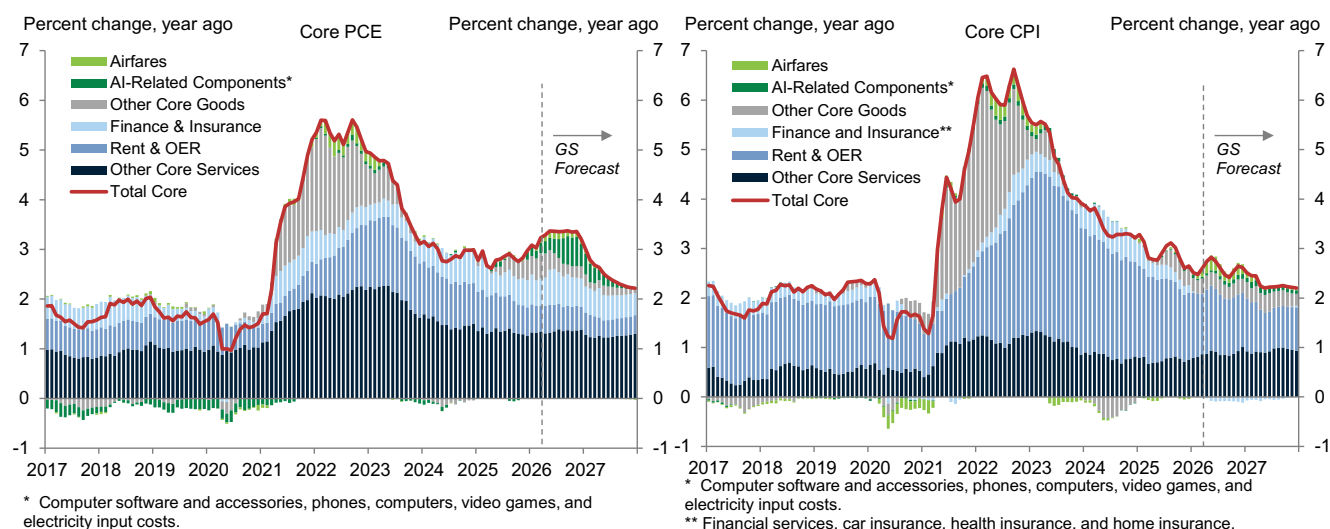
The Inflation Outlook

We forecast year-over-year core PCE inflation of 3.2% in December 2026, as last year's tariff boost eases but AI and oil-related pressures keep inflation elevated (left side of

Exhibit 12). We then expect core PCE inflation to slow to 2.2% by December 2027 as the energy and AI effects wane. In the near term, we expect strong increases in equity prices to boost monthly core PCE inflation by about 0.10pp in May and 0.05pp in June. We expect core CPI to slow to 2.6% year-over-year by December 2026 and 2.2% by December 2027, as it is less affected by AI measurement issues and financial services pressures (right side of Exhibit 12).

We see risks to our forecast skewed to the upside, particularly if the situation in the Middle East deteriorates or if higher inflation expectations cause businesses to raise prices beyond the increase in their input costs. Inflation could prove lower than we expect if shelter inflation slows more quickly than we assume, oil prices fall by more than we expect, or the AI-related memory crunch resolves faster than we anticipate.

Exhibit 12: We Expect Energy Price Passthrough, AI-Related Pressure, and the Stock Market Boom to Keep Year-over-Year Core PCE Inflation at 3.2% in December 2026, Even as Core CPI Inflation Slows to 2.6%; We Expect Both PCE and CPI Inflation to Be Close to 2% by December 2027



Source: Goldman Sachs Global Investment Research, Department of Commerce, Department of Labor

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Appendix

	Weight	GS Bottom-up Core PCE Model				
		May 2026*	Dec. 2026		Dec. 2027	
		YoY	YoY	Contribution to Change	YoY	Contribution to Change
Core PCE	100.0	3.4	3.2	-0.2	2.2	-1.2
Core Goods	24.4	2.4	2.7	0.1	0.2	-0.5
New Vehicles	2.1	0.3	0.1	0.0	0.0	0.0
Used Vehicles	1.2	-2.2	-2.1	0.0	-0.4	0.0
Household Appliances	0.5	-1.1	1.2	0.0	-1.2	0.0
Video, Audio, Computers	2.4	8.3	16.1	0.2	-0.7	-0.2
Recreational Vehicles	0.5	3.7	1.7	0.0	2.1	0.0
Jewelry, Watches	0.6	16.7	15.1	0.0	0.8	-0.1
Clothing & Footwear	3.0	4.2	5.0	0.0	2.3	-0.1
Pharma & Medical	3.8	-2.2	-2.2	0.0	0.1	0.1
Pets Products	0.6	1.5	2.2	0.0	0.3	0.0
Expenditures Abroad	0.1	5.7	3.4	0.0	1.4	0.0
Residual Core Goods	9.6	2.8	1.6	-0.1	-0.1	-0.3
Core goods ex. autos	21.1	3.0	3.4	0.1	0.3	-0.6
Core Services	75.6	3.7	3.4	-0.2	2.9	-0.6
Housing	17.5	3.2	2.7	-0.1	2.2	-0.2
Ground Transportation	0.6	0.9	9.7	0.1	-0.2	0.0
Air Transportation	1.1	13.9	9.8	0.0	-2.3	-0.2
Food Services & Accommodation	7.9	3.7	4.3	0.0	3.7	0.0
Financial Services & Insurance	9.3	7.9	6.2	-0.2	4.9	-0.3
Medical Services	18.9	3.1	2.9	0.0	2.9	0.0
Foreign Travel	1.5	-1.2	3.2	0.1	2.9	0.1
Residual Core Services	18.8	2.6	2.2	-0.1	2.5	0.0
Core services ex. housing	58.1	3.8	3.6	-0.1	3.1	-0.4

* GS tracking based on May CPI, PPI, and import prices.

Source: Goldman Sachs Global Investment Research, Department of Commerce

The US Economic and Financial Outlook

THE US ECONOMIC AND FINANCIAL OUTLOOK

(% change on previous period, annualized, except where noted)

	2023	2024	2025	2026	2027	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4
OUTPUT AND SPENDING														
Real GDP	2.9	2.8	2.1	2.1	2.2	0.5	1.6	2.6	2.0	2.0	2.1	2.2	2.3	2.3
Real GDP (annual=Q4/Q4, quarterly=yoy)	3.4	2.4	2.0	2.1	2.2	2.0	2.6	2.3	1.7	2.1	2.2	2.1	2.2	2.2
Consumer Expenditures	2.6	2.9	2.6	1.9	1.8	1.9	1.4	1.9	1.5	1.5	1.9	2.0	2.1	2.2
Residential Fixed Investment	-7.8	3.2	-2.2	-3.9	1.5	-1.7	-6.3	-5.6	1.5	1.5	2.2	2.2	2.2	2.2
Business Fixed Investment	7.3	2.9	4.1	6.5	5.8	2.4	10.1	7.3	7.5	6.9	4.9	4.9	4.9	4.9
Structures	16.7	1.1	-5.3	-3.8	2.0	-6.6	-5.4	0.4	-1.0	-0.2	3.5	3.5	3.5	3.5
Equipment	2.9	3.5	8.3	10.7	7.0	4.3	17.2	13.2	11.0	9.5	5.0	5.0	5.0	5.0
Intellectual Property Products	6.2	3.5	5.6	7.9	6.2	5.4	11.6	5.0	8.2	7.8	5.5	5.5	5.5	5.5
Federal Government	3.3	3.8	-1.2	-1.5	0.7	-16.7	9.5	-3.0	1.0	1.0	1.0	1.0	1.0	1.0
State & Local Government	3.6	3.8	2.5	1.4	0.9	1.5	1.5	0.8	0.5	1.0	1.0	1.0	1.0	1.0
Net Exports (\$bn, '17)	-925	-1,033	-1,091	-1,102	-1,178	-969	-1,064	-1,090	-1,117	-1,139	-1,154	-1,170	-1,186	-1,202
Inventory Investment (\$bn, '17)	47	44	29	26	61	-16	-26	35	45	50	55	60	65	65
Nominal GDP	6.7	5.3	5.0	6.1	5.0	4.2	5.2	9.3	4.7	4.5	4.8	4.8	4.6	4.4
Industrial Production, Mfg.	-1.0	-1.0	0.8	3.6	4.0	-3.4	5.3	8.6	5.2	4.1	3.4	3.3	3.3	3.3
HOUSING MARKET														
Housing Starts (units, thous)	1,421	1,370	1,356	1,319	1,322	1,323	1,413	1,290	1,280	1,292	1,304	1,316	1,328	1,340
New Home Sales (units, thous)	666	684	679	654	644	711	627	690	662	638	626	632	649	670
Existing Home Sales (units, thous)	4,103	4,067	4,076	4,095	4,254	4,157	4,053	4,073	4,107	4,149	4,191	4,233	4,275	4,317
Case-Shiller Home Prices (%yoy)*	5.3	3.8	0.7	0.7	2.2	0.7	0.3	0.8	0.7	0.7	1.1	1.4	1.8	2.2
INFLATION (% ch, yr/yr)														
Consumer Price Index (CPI)**	3.3	2.9	2.7	3.3	2.2	2.7	2.7	3.9	3.4	3.3	3.0	2.0	2.2	2.2
Core CPI **	3.9	3.2	2.6	2.6	2.2	2.7	2.5	2.8	2.5	2.6	2.5	2.2	2.2	2.2
Core PCE** †	3.1	3.0	3.0	3.2	2.2	2.9	3.1	3.3	3.4	3.3	2.8	2.5	2.3	2.2
LABOR MARKET														
Unemployment Rate (%)^	3.8	4.1	4.4	4.4	4.3	4.4	4.3	4.3	4.3	4.4	4.4	4.4	4.3	4.3
U6 Underemployment Rate (%)^	7.2	7.6	8.4	8.2	8.1	8.4	8.0	8.1	8.2	8.2	8.2	8.2	8.1	8.1
Payrolls (thous, monthly rate)	210	122	10	72	50	-39	73	130	40	45	50	50	50	50
Employment-Population Ratio (%)^	60.1	59.9	59.7	59.1	59.0	59.7	59.2	59.2	59.1	59.1	59.0	59.0	59.0	59.0
Labor Force Participation Rate (%)^	62.5	62.5	62.4	61.8	61.6	62.4	61.9	61.8	61.8	61.8	61.7	61.7	61.7	61.6
Average Hourly Earnings (%yoy)	4.4	3.9	4.0	3.9	3.8	4.0	4.0	4.0	3.9	3.8	3.8	3.8	3.8	3.8
GOVERNMENT FINANCE														
Federal Budget (FY, \$bn)	-1,694	-1,833	-1,775	-1,950	-2,050	--	--	--	--	--	--	--	--	--
FINANCIAL INDICATORS														
FF Target Range (Bottom-Top, %)^	5.25-5.5	4.25-4.5	3.5-3.75	3.5-3.75	3-3.25	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.25-3.5	3.25-3.5	3-3.25
10-Year Treasury Note^	3.88	4.58	4.18	4.40	4.25	4.18	4.30	4.50	4.45	4.40	4.35	4.30	4.25	4.25
Euro (€/€)^	1.11	1.04	1.17	1.18	1.20	1.17	1.15	1.16	1.19	1.18	1.19	1.20	1.20	1.20
Yen (\$/¥)^	141	157	157	158	141	157	159	158	158	158	156	141	101	141

* Weighted average of metro-level HPIs for 381 metro cities where the weights are dollar values of housing stock reported in the American Community Survey. Annual numbers are Q4/Q4.

** Annual inflation numbers are December year-on-year values. Quarterly values are Q4/Q4.

† PCE = Personal consumption expenditures. ^ Denotes end of period.

Note: Published figures in bold.

Source: Goldman Sachs Global Investment Research.

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Disclosure Appendix

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I, Manuel Abecasis, hereby certify that all of the views expressed in this report accurately reflect my personal views, which have not been influenced by considerations of the firm's business or client relationships.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

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Disclosures

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