Q2

2026 U.S. ECONOMIC UPDATE

A special report by
Avery Vise of FTR Transportation Intelligence

FTR Transportation Intelligence

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Freight Transportation Research (FTR) is the industry's leading provider of transportation intelligence, delivering unbiased, data-driven forecasts and market insights to help manufacturers, shippers, carriers, and industry stakeholders make informed decisions. With over 40 years of expertise, FTR's proprietary Freightcast forecasting methodology leverages economic and industry data to provide a clear, third-party perspective on freight demand, commercial vehicle production, and supply chain logistics.

Avery Vise

Avery Vise has closely studied the transportation industry for nearly 40 years as an editor, analyst, and researcher, including more than 25 years dedicated specifically to the trucking industry. Currently, he is vice president of trucking for FTR Transportation Intelligence, which specializes in forecasting and data analysis in freight transportation. He serves as FTR's chief analyst for trucking-related market data and insights concerning truck freight demand, capacity, rates, and regulatory impacts. Vise is the principal author of FTR's monthly Trucking Update report and contributes to the firm's Shippers Update and Truck and Trailer Outlook services. He leads the weekly Spot Market Insights analysis, hosts the weekly Trucking Market Update podcast, and is a primary contributor to FTR's Weekly Transportation Update publication. Another major focus is tracking trucking fleets' driver and truck capacity and leading client projects to size markets for specific types of trucking operations. Vise also conducts regular webinars for clients and is a frequent speaker at conferences. Prior to joining FTR in 2017, Avery was principal of his own transportation consulting and market research practice. Previously, he served as head of trucking market research and analysis for a media organization and as chief editor of a trucking industry magazine. Vise started his career at McGraw Hill as an editor covering the commercial aviation industry before shifting his focus to the trucking industry in 1998.

Economic Outlook

Three months ago, the U.S. economy appeared to be stabilizing at a modest growth rate, and it may still be. However, several developments since the beginning of the year have resurrected uncertainty in a big way. Chief among these, of course, was the launch of military operations against Iran at the end of February—a move that largely shut down the Strait of Hormuz, through which a sizeable portion of global crude oil moves, sending crude prices soaring. Gasoline and diesel prices followed.

Whether the war has had, or will have, any broader direct impact on the economy remains unclear, but it has helped reinvigorate a climate of uncertainty that began when President Trump initiated an aggressive trade policy more than a year ago. Moreover, trade remains unsettled, and arguably even more so, following the Supreme Court's February ruling striking down Trump's country-specific tariffs that were based on emergency powers.

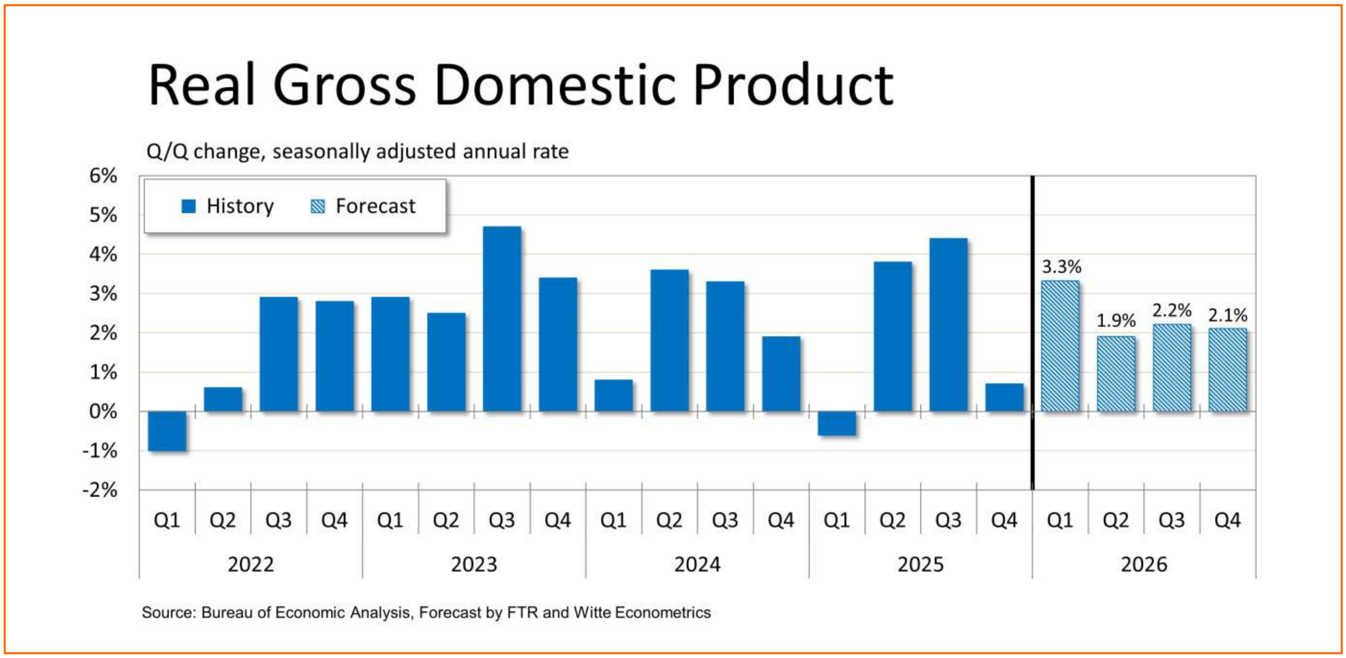
President Trump responded immediately by imposing a 10% global tariff based on other authority in the Trade Act of 1974, but those tariffs will require Congressional approval by mid-summer to continue. Shortly thereafter, the U.S. Trade Representative launched investigations under Section 301 regarding the importation of goods produced with forced labor and the creation of structural excess capacity and production in the manufacturing sector. The latter investigation addresses U.S. trade deficits with some of the world's largest economies, such as China, most major Asian nations, and the European Union.

On top of these new and ongoing worries, the North American supply chain continues to brace for some unspecified action related to the U.S.-Mexico-Canada Agreement (USMCA), which is subject to potential changes as early as this summer. Between the war and Supreme Court ruling on tariffs, USMCA has not received much attention recently, but it remains a big concern—especially so for trucking since all that transportation is principally by truck and secondarily by rail.

Meanwhile, data on recent economic performance requires some context. Between mid-2022 and the end of 2024, growth in real Gross Domestic Product (GDP) was reasonably stable with only a single quarter above 3.6% annualized and just one quarter below 1.9%. Growth in most quarters was in the range of 2.5% to 3.5%.

Last year was quite different, starting with a 0.6% annualized drop in GDP—the first decrease in three years—followed by robust growth of 3.8% and 4.4% in the second and third quarters before ending the year up just 0.7% in Q4.

These swings were due in large part to tariff-induced distortions in goods imports, although a major factor in Q4 was the 43-day lapse in federal government funding in October and November. The government shutdown alone reduced GDP by nearly 1.2 percentage points in the fourth quarter.



After recording its strongest growth in two years in the third quarter, the U.S. economy as measured by real Gross Domestic Product mustered just 0.7% annualized growth in Q4 of 2025. However, more than a percentage point of the hit to GDP in Q4 was the 43-day federal government shutdown.

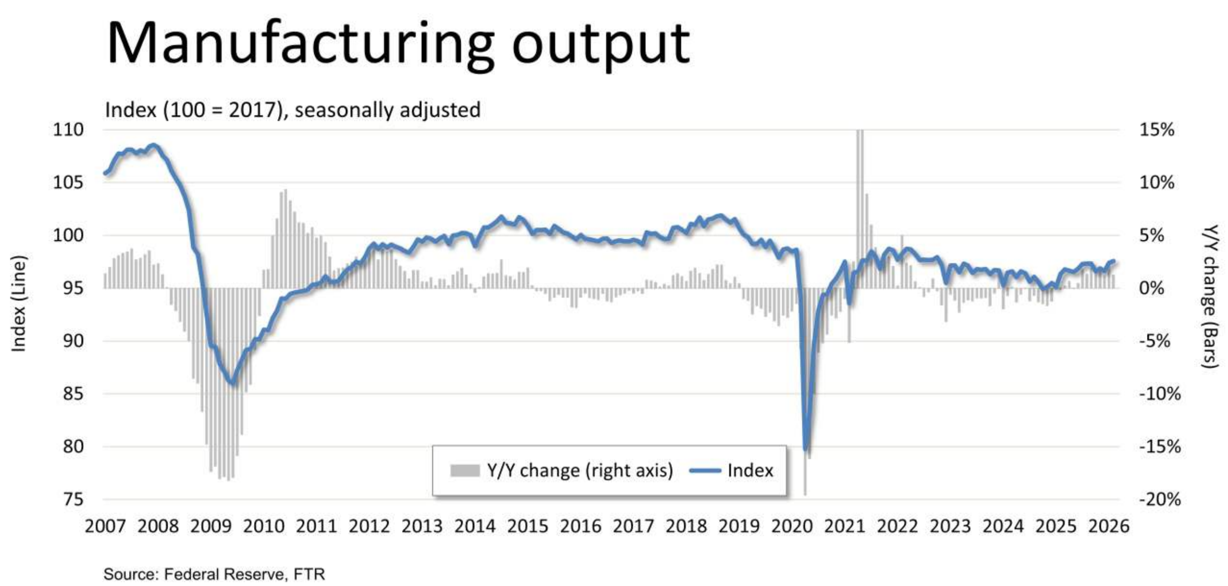
Due largely to the lack of any significant government shutdown this year (the lapse in February was just a couple of days) and the additional government spending due to the Iran conflict, we expect GDP growth in the first quarter of 2026 to be on the high end of the norm in recent years at 3.3% annualized. Thereafter, we forecast continued growth but at a somewhat softer clip than what was typical in 2022 through 2024. For 2026 as a whole, FTR currently forecasts GDP growth of 2.5%, slightly stronger than 2025 but slightly weaker than 2023 and 2024.

FTR also estimates and forecasts the portion of the economy linked to freight transportation—what we call the GDP Goods Transport sector (GTS). The services sector, led by health care, has been outperforming the goods sector, and we currently project little to no growth for GTS this year. However, this assessment is based on dollar-value data and does not align cleanly with truck freight volume, which we estimate will be stronger (though not robust by any definition).

A Sustained Manufacturing Recovery?

Our Q1 update was fairly pessimistic about the strength of the manufacturing sector based on a recent revision of Federal Reserve industrial production (IP) data and available figures for October and November. The fourth quarter of 2025 was not a good one for the industrial sector. Total IP and manufacturing output fell 1.2% and 2.8% annualized, respectively.

How quickly things change. The seasonally adjusted data for IP January indicated strong sequential growth—a development that arguably was both surprising and not at all surprising. The declines in October and December obviously made it easier for January to outperform, but we might have expected severe winter weather to have taken at least some of the momentum away from manufacturing output. Seasonally adjusted manufacturing production increased slightly in February versus January but not by much, and the year-over-year (y/y) comparison was only slightly stronger than 1%.



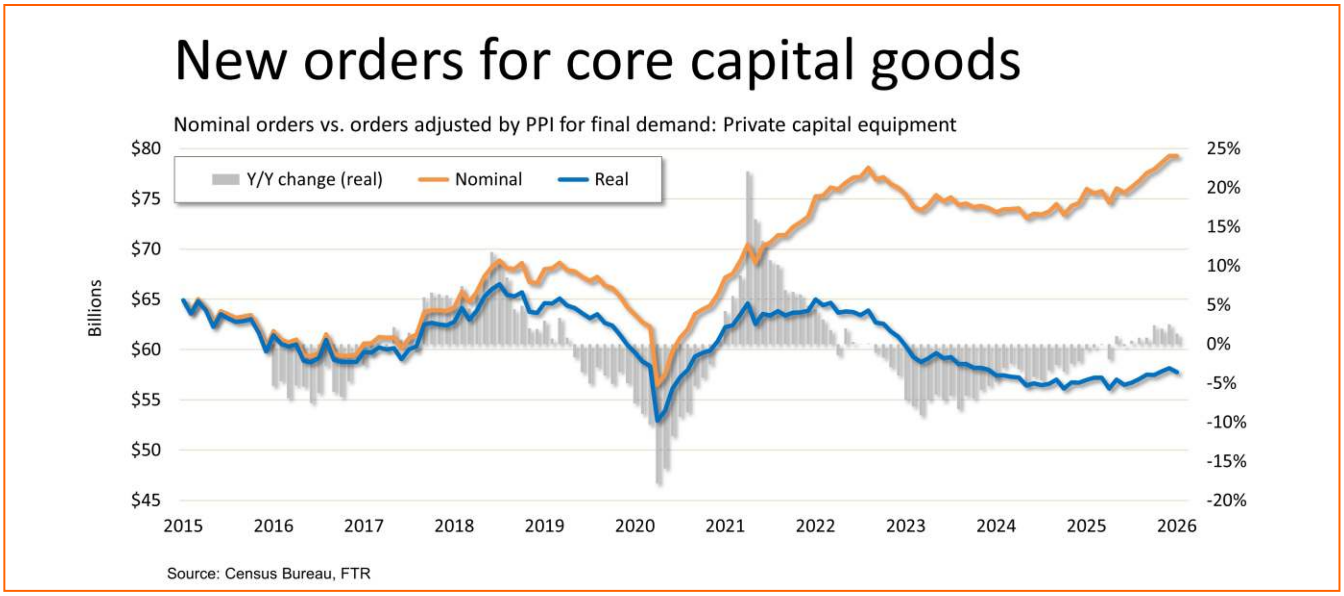
> Rising prices for materials due to tariffs and other factors have driven up the value of new orders for core capital goods. Adjusted for inflation, orders are not nearly so robust, but they do appear to have turned a corner last spring, and that's an encouraging signal despite weak performance in the latest month for which data is available.

If the Federal Reserve data were our only measure of manufacturing's health, we likely would conclude that January was an outlier, marking the strongest month-over-month (m/m) increase since February of last year. However, another closely watched indicator also showed unusual strength—at least by the standards of the past three-plus years—not only for January, but in February as well.

Aside from a very small and short-lived blip a little over a year ago, the Institute for Supply Management's (ISM) manufacturing index had indicated that the sector had been in overall contraction for more than three years. However, January's reading of 52.6% was significantly higher than the 50% threshold between contraction and expansion, and the February ISM index barely changed, declining only two-tenths of a point.

Even more encouraging for trucking is the fact that freight-related index components outperformed the total index, which also includes factors that are more relevant to the financial health of the manufacturing sector than to production levels and, thus, freight volume.
Although the ISM index's production and new orders components softened in February versus January, they remained quite strong. The production component fell 2.4 points to 53.5% while the new orders component declined 1.3 points to 55.8%. Another encouraging ISM data point is order backlogs, which rose quite sharply in February to 56.6%. Strong backlogs are good for trucking because they help smooth out production levels and, thus, transportation demand.

Another arguably encouraging signal is demand for production of core capital goods—nondefense capital goods excluding aircraft. Core capital goods are a good proxy for business investment. The Census Bureau is behind on reporting that data because of last fall's government shutdown. In January, new orders were flat m/m but up 4.3% y/y.



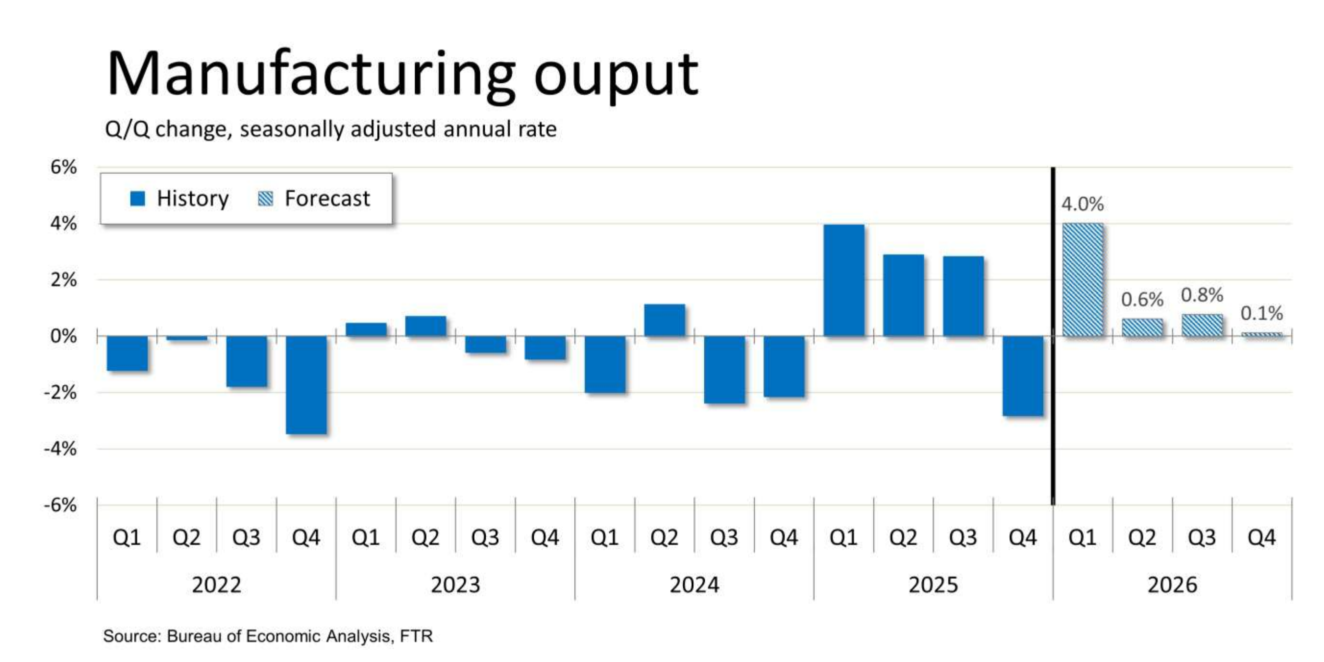
Manufacturing growth looked strong for Q1 after a disappointing fourth quarter of 2025, but FTR is cautious about what the trajectory will be for the rest of the year. We are intentionally limiting the growth projection due to the range of headwinds, including tariffs, costs of key materials, energy costs, and the Iranian conflict. We should have more clarity soon on whether the sector is likely to outperform our current forecast.

However, this data—like all Census Bureau dollar-value figures—is reported in current dollars, meaning that it is not adjusted for pricing. That's a big deal considering that tariffs have directly and indirectly led to higher prices for key materials used in producing capital goods. For example, the Producer Price Index for aluminum continues to set record highs month after month.

Adjusting new orders for core capital goods by the PPI for private capital equipment shows that real new orders fell 0.7% m/m in January—the largest drop in seven months—and were up just 1.3% y/y. Given January's weak performance for real core capital goods orders, why do we still view this data as somewhat encouraging? In general, real new orders appear to have bottomed out, suggesting potential growth not only in the production of capital goods but also in the future economic activity they support.

FTR's latest forecast for manufacturing production is annualized growth of 4% in Q1 followed by far smaller gains for the rest of the year. Over the course of the year, we forecast output growth of 1.2%, which would be the strongest since 2021. However, if our forecast is correct, the improvement has basically already occurred; the rest of the year would largely be just maintaining and perhaps adding very slightly to the Q1 gains.

We acknowledge, though, that we are for now viewing the strength of the manufacturing recovery skeptically given the headwinds we discussed earlier. In other words, the risk to our forecast is probably more that we are too low rather than too high.



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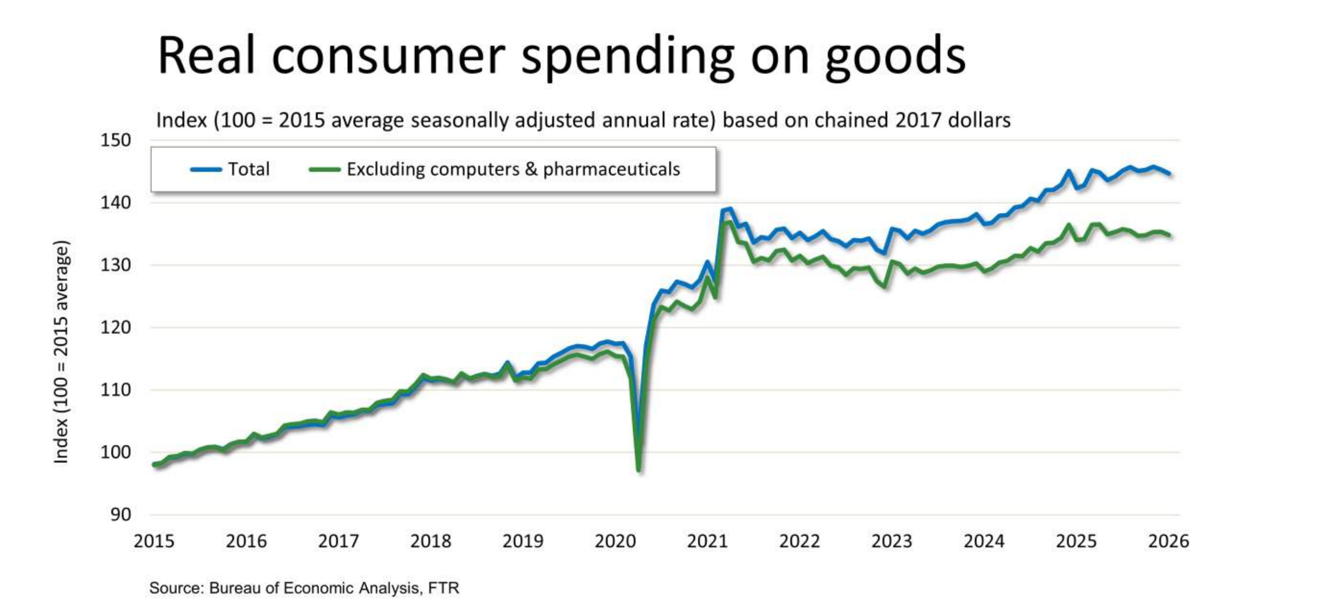
2026 Wild Card: The American Consumer

As fragile and potentially shallow as it might seem, the industrial sector is at least stronger now than it was a year ago. The same cannot be said for the consumer sector. The level of inflation-adjusted consumer spending on goods is strong by historical standards, but it's not growing.

Lackluster spending on goods is hardly a shock, and perhaps the more surprising phenomenon is the relative resilience of spending in the face of a host of challenges. For starters, spending on health care is rising steadily, limiting the funds available for other purposes to some degree. Inflation has moderated from the soaring levels in 2021 and 2022, but it remains stubbornly higher than it had been heading into the pandemic. Tariffs are likely a contributing factor, and obviously the recent surge in gasoline prices will be a challenge. Add to these headwinds weakening—and even negative, in some months—payroll employment growth.

Specifically for freight, another issue is one we have addressed previously: A shift in what goods consumers are buying. Goods spending overall is sluggish with sudden changes in total spending driven mostly by rising or falling vehicle sales. However, the more consistent pattern—especially since 2021—has been an increasing share of spending going to two commodity groups: Information processing equipment (which we summarize as "computers") and pharmaceuticals. Both are high-value goods but have a low impact on freight volume. Indeed, a big share of the spending on information processing equipment is software, which generates no freight whatsoever, of course. Spending on computers has seen a far larger growth rate, but spending on pharmaceuticals represents a larger chunk of real spending.



Pharmaceuticals and information processing equipment (computers)—commodities of high value but low freight impact—have been the principal drivers of consumer spending on goods in recent years. While inflation-adjusted spending on goods is at a historically high level, growth has evaporated over the past year, especially when those two commodities are excluded.

Despite these headwinds, we still label consumer spending a wild card—especially in the near term—principally for one reason: Taxes.

Last year's budget reconciliation package enacted several changes in tax law that benefit individuals and families, including relief on taxes imposed on overtime pay and tips and higher deductions for state and local taxes paid. In theory, workers could have adjusted their withholding accordingly, but most observers doubt that happened and expect instead that taxpayers will just get larger refunds than they have in the past, at least this year.

Tax refund season runs from February through May, but the bulk of the distribution likely comes in April and May. We will watch closely for any spike in consumer spending on goods that might flow from higher refunds. Any boost likely will be short-lived, however.

LTL Industry Dynamics

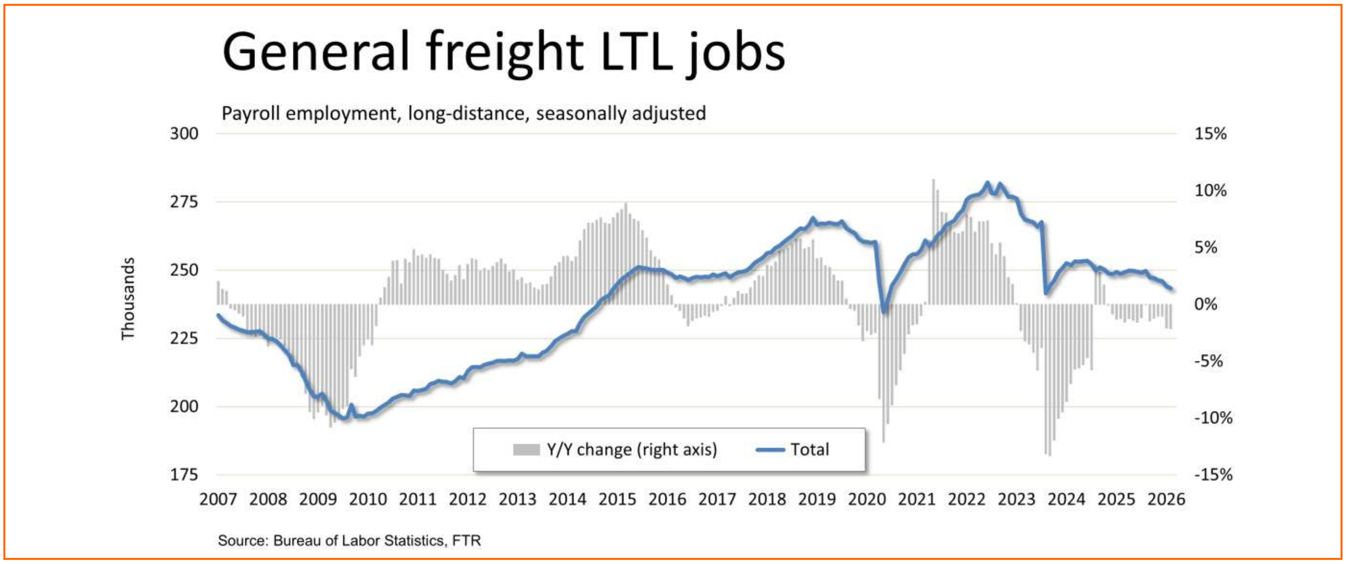
Uncertainty over the durability of "green shoots" in freight demand and a desire to boost margins has led the LTL industry to squeeze more utilization out of its existing workforce, but the trend has ratcheted up a notch.

The six months from September 2025 through February 2026 – the most recent month for which data is available for individual trucking sectors – have seen a subtle but significant shift in the trajectory of payroll jobs in LTL. With a few small offsetting ups and downs, employment had been essentially flat after hitting a peak – if you can even call it that – in June 2024 since YRC's failure in August 2023.

LTL carriers then shed 2,500 jobs, seasonally adjusted, last September. Since then, employment has declined every month, although October's dip was marginal. As revised by Bureau of Labor Statistics figures published in early April, LTL employment fell by 1,900 jobs in January – a substantial revision of the initially published 5,000-job drop – and by another 700 jobs in February.

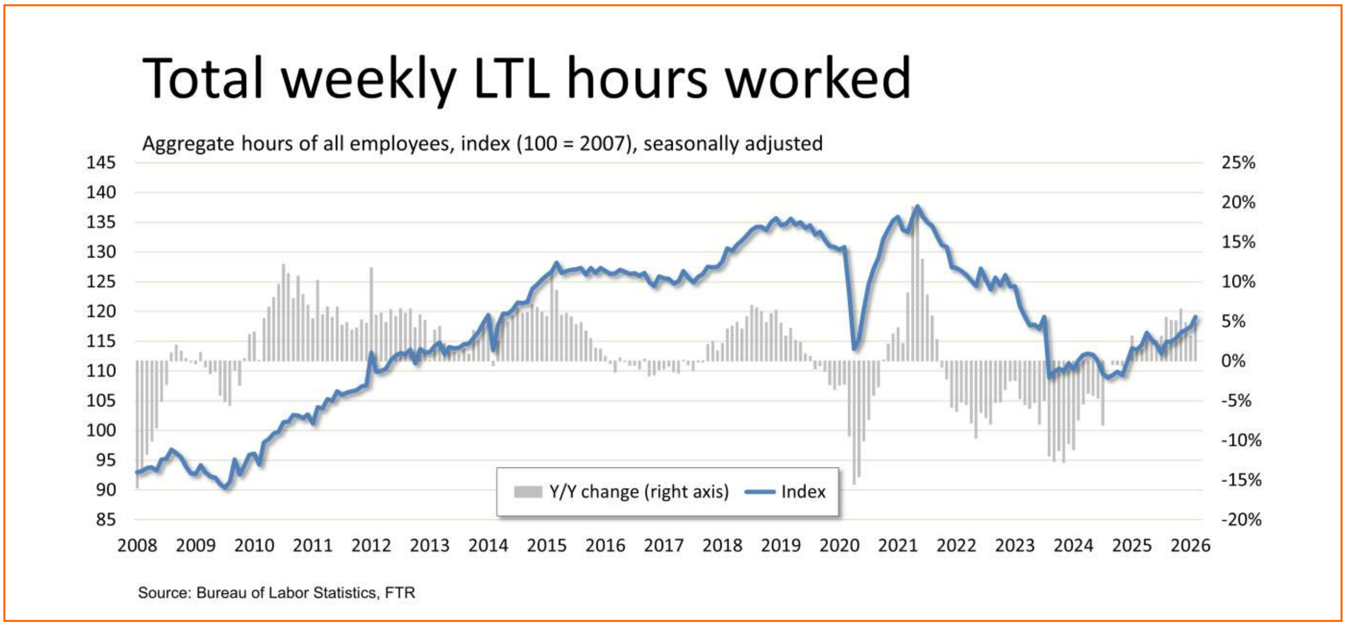
LTL employment is down 6,400 jobs, or 2.6%, from August 2025 and 10,000 jobs, or 3.9%, since the post-YRC high in June 2024. Those are notable declines but nothing like the gap between today and the record level in June 2022 or even employment immediately before YRC's shutdown, of course. Based on preliminary BLS figures, LTL payroll employment was 24,200 jobs, or 9.0%, below the July 2023 level and 32,500 jobs, or 13.7%, below the all-time high in June 2022.

Seasonally adjusted LTL jobs in February were the lowest since June 2020 with the lone exception of the month YRC stopped operating. Excluding the era of pandemic disruption, LTL employment had not been lower than February's level since December 2014.

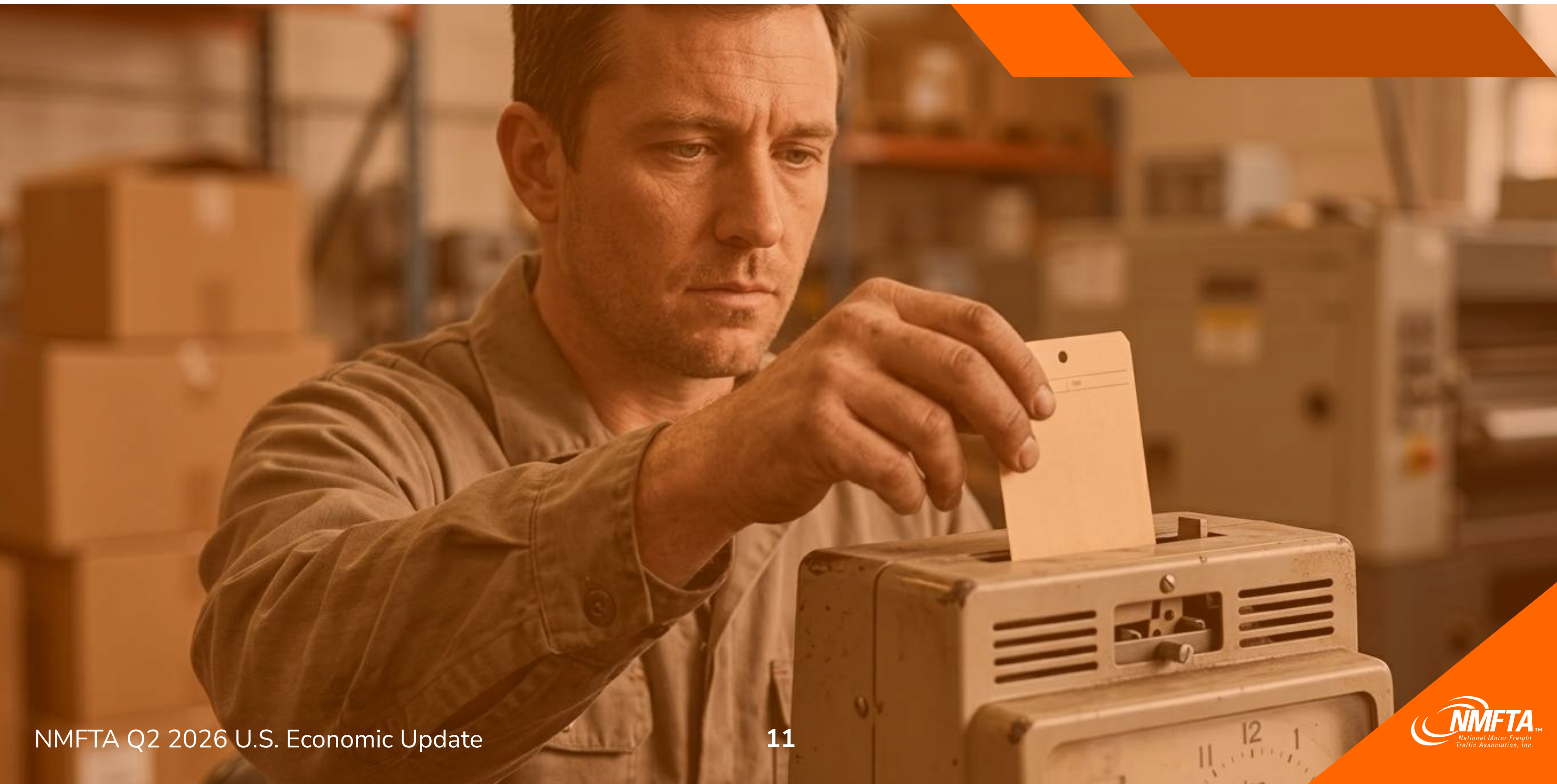


The latest data from the Bureau of Labor Statistics indicates that LTL has been undergoing its second phase of declining payroll employment since the sector's maximum recovery in June 2024 following YRC's shutdown in August 2023.

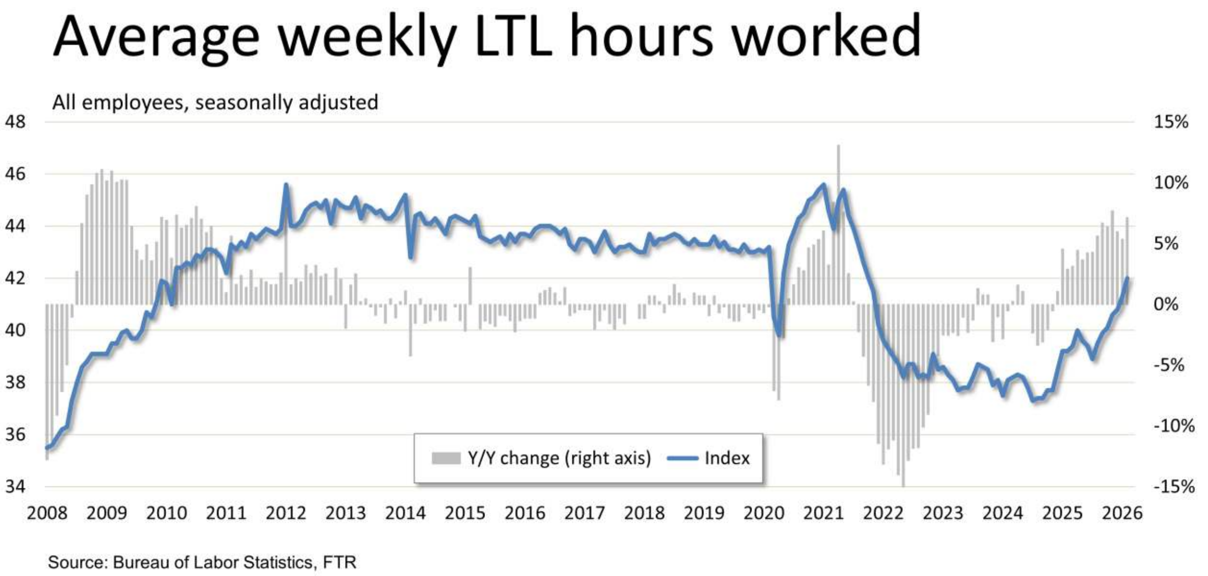
With declining payrolls, you might assume that the amount of work being performed is falling. Guess again. A BLS index of total weekly hours worked by LTL employees has been rising since August and in February matched the level recorded the month before YRC's exit. Total hours worked are still quite low historically, however. From April 2014 through March 2023, total LTL employee hours worked per week were below February 2026's level only in two months—April and May 2020. The weekly average during that period was 7.6% higher than it was in February.



Although LTL payroll employment has been declining since summer, the number of weekly hours worked has been rising. Work hours are still low versus the norm over the past dozen years, however.

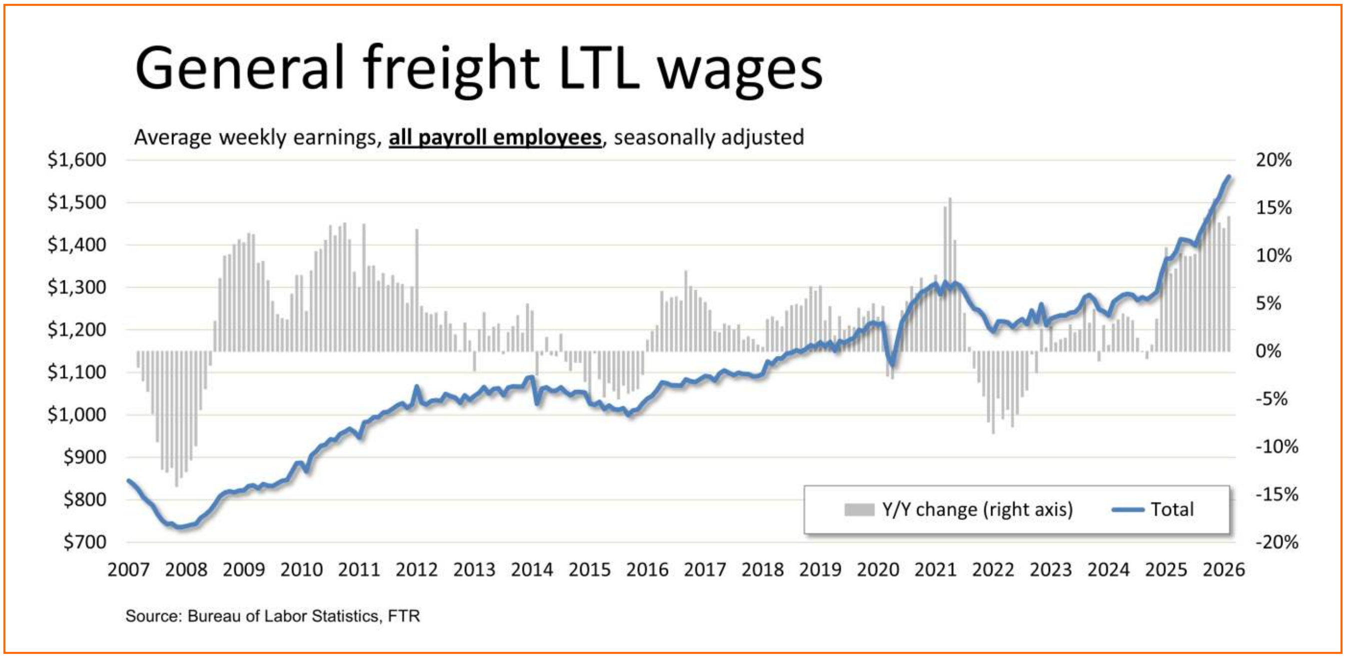


What happens when the number of employee hours worked rises while the number of employees performing that work falls? Workers put in more hours, of course. Average weekly hours worked by LTL employees have risen for seven straight months. The preliminary estimate of 42 hours worked was up 7.1% y/y and the highest since the fall of 2021. However, the average work week still has not recovered to the norm for the 2010s.

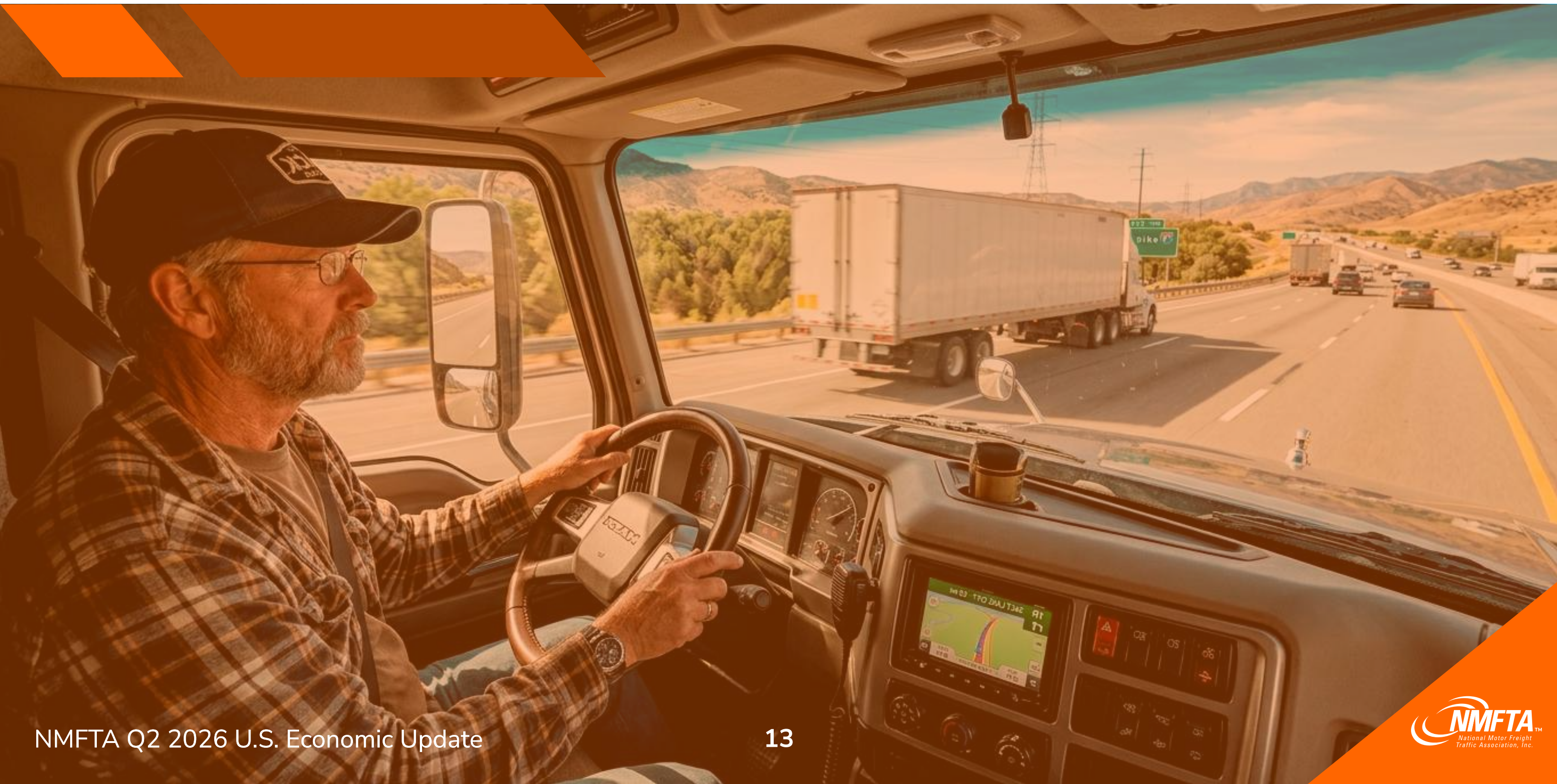


LTL employees' average hours worked per week have risen steadily for six months. The average of 42 hours is the highest since October 2021 and up from a post-pandemic low of 37.3 hours in July 2024.

More work per employee naturally means higher wages. Average weekly earnings for LTL employees have risen strongly for seven months, setting a record each month—at least since 2006, when BLS began tracking this data. Earnings in February were up a robust 14.1% y/y, though the prior-year comparisons were even stronger in October and November.



Average weekly earnings for LTL employees have set records in each of the past seven months in current dollars. The average of 42 hours is the highest since October 2021 and up from a post-pandemic low of 37.3 hours in July 2024. Inflation-adjusted figures are the highest since June 2021.



One fine point on this data: It's not adjusted for inflation. However, BLS reports inflation-adjusted figures for average weekly earnings, and LTL employee earnings in February were the highest since June 2021 and above any other month going back at least to 2006 except for the second half of 2020 through the first half of 2021.

LTL is hardly alone—especially among longer-haul freight providers—in keeping headcount down even as freight demand strengthens sporadically. Truckload's payroll employment in February was the lowest since February 2014 and employee earnings also were at a record in current dollars in February. Long-distance specialized employment was the lowest since August 2013 and wages were just slightly below a recent record. Local general freight and local specialized employment levels are much stronger relative to their histories, but their employees, too, are receiving near-record wages.

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