

**LAEDC Institute for Applied Economics**  
**Quarterly Economic Briefing**  
*June 23, 2026*

## Growth Slows, Uncertainty Rises, and Strategic Opportunities Emerge

### Overview

The U.S. economy entered the second half of 2026 in a period of transition. Economic growth remains positive, unemployment remains relatively low, and inflation has moderated substantially from its 2022 peak. At the same time, households continue to face affordability challenges, businesses are navigating elevated uncertainty, and policymakers are confronting a complex set of domestic and international risks.

Unlike previous economic slowdowns, the current environment is not defined by a single dominant challenge. Instead, *multiple* forces are influencing economic outcomes simultaneously. Slowing growth, persistent inflationary pressures, geopolitical tensions, elevated interest rates, changing labor market dynamics, and rapid technological change are all shaping the economic landscape.

For Los Angeles County, these national trends are compounded by local challenges, including housing affordability, labor market transitions, energy costs, and heightened exposure to global trade and investment flows. Yet opportunities also remain. Foreign direct investment continues to support hundreds of thousands of jobs throughout California, while the rollout of Opportunity Zone 2.0 presents a new opportunity to attract long-term investment into communities throughout the region.

### ***Key Findings***

- The U.S. economy continues to grow, but at a slower pace than during the post-pandemic recovery.
- Inflation has eased considerably, but elevated price levels continue to strain household budgets.

### **Major Forces Shaping the Economy in 2026**

- Inflation and interest rates
- Consumer financial health
- Labor market normalization
- Geopolitical risk
- Trade and immigration policy
- Artificial intelligence and productivity

- Consumers remain the primary driver of economic growth, though financial pressures are increasing.
- Labor markets are cooling rather than contracting, with hiring slowing but unemployment remaining relatively low.
- Geopolitical developments have re-emerged as a significant economic risk, particularly through energy markets.
- Los Angeles County's labor market remains mixed, with strength in some industries offset by weakness in others.
- Foreign-owned enterprises continue to represent a major source of employment and wages throughout California and Los Angeles County.
- Opportunity Zone 2.0 presents a time-sensitive opportunity to align private investment with local economic development priorities.

## The U.S. Economy

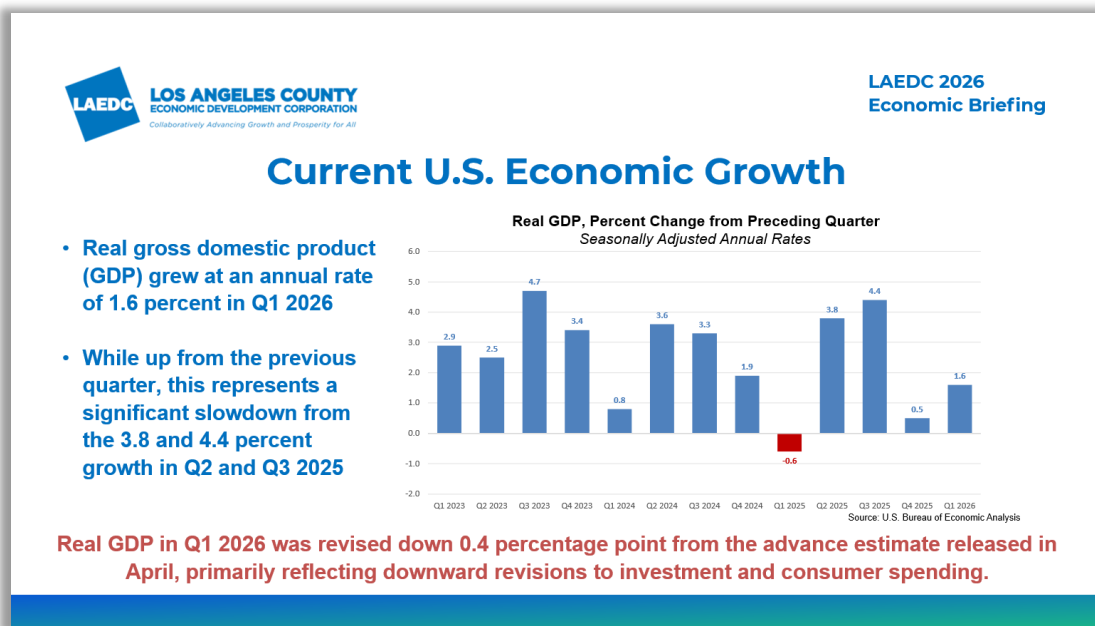
### *Transition Amid Uncertainty*

The U.S. economy has proven remarkably resilient over the past several years. Following the sharp recession triggered by the COVID-19 pandemic in 2020, the economy rebounded rapidly as businesses reopened, consumers resumed spending, and unprecedented fiscal and monetary stimulus supported demand.

That recovery, however, was followed by a surge in inflation unlike anything experienced in more than four decades. Supply chain disruptions, labor shortages, elevated consumer demand, and geopolitical shocks combined to push inflation to levels not seen since the early 1980s. In response, the Federal Reserve implemented the most aggressive interest rate tightening cycle in decades.

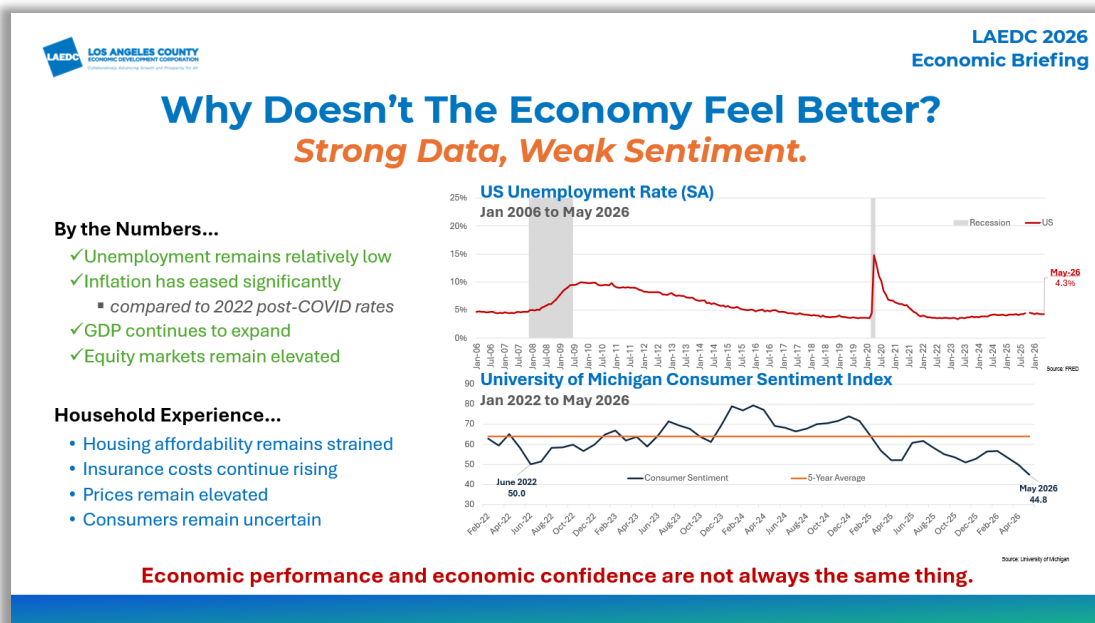
Beginning in 2023, economists widely anticipated that these higher interest rates would eventually trigger a recession. Yet year after year, those predictions failed to materialize. Consumers continued spending, employers continued hiring, and economic growth remained positive.

Today, the economy has entered a different phase. The emergency conditions of the pandemic era have largely faded, but new uncertainties have emerged. Growth is slowing, inflation remains above the Federal Reserve's target, and businesses and households alike face increasing uncertainty regarding interest rates, trade policy, immigration policy, federal fiscal policy, and geopolitical developments.



One of the defining characteristics of the current environment is the disconnect between economic performance and public perception. Traditional economic indicators suggest a relatively healthy economy. Unemployment remains low, inflation has moderated, and output continues to expand. Yet consumer sentiment remains subdued.

This divergence reflects the reality that households experience the economy through their personal finances rather than through aggregate economic statistics. Rising housing costs, insurance premiums, healthcare expenses, and other necessities continue to weigh heavily on household budgets. Even as inflation has slowed, many consumers continue to feel financially constrained.



The result is an economy that appears healthy on paper but feels considerably more challenging for many households. Understanding this disconnect is critical for interpreting current economic conditions and anticipating future trends.

### Implications for Los Angeles County

Los Angeles County tends to experience national economic trends through a local lens shaped by higher costs of living, greater housing affordability challenges, and deeper integration with global markets. As national growth slows, local businesses, governments, nonprofits, and households may face increasing pressure despite the absence of a recession.

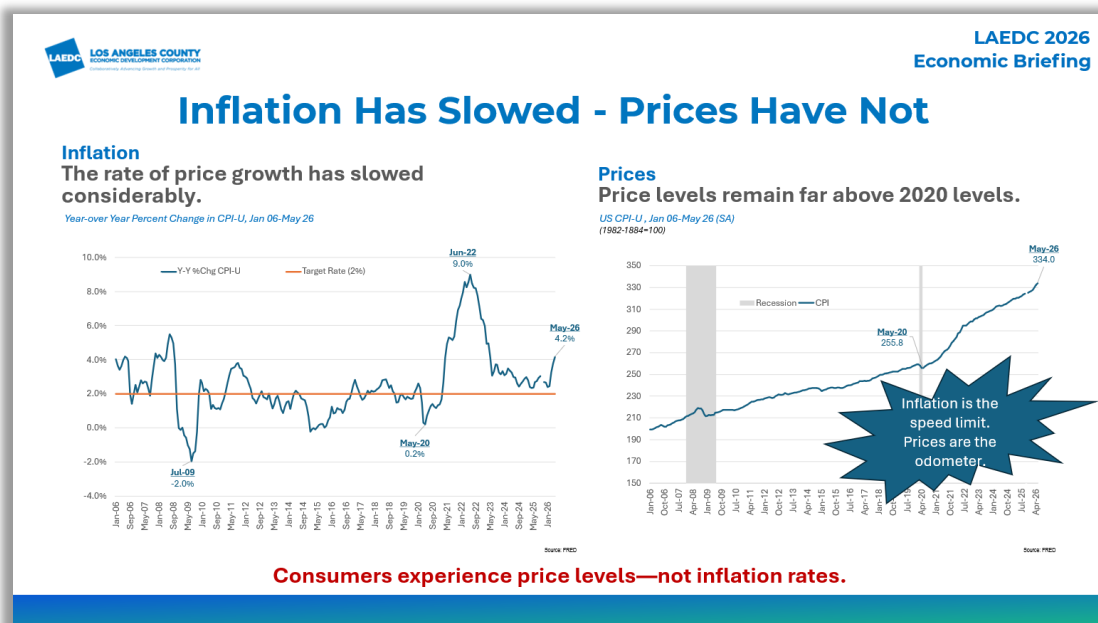
### Consumers Remain the Foundation of Growth

Consumer spending continues to serve as the primary engine of the U.S. economy. Personal consumption expenditures account for approximately two-thirds of gross domestic product, making household spending decisions one of the most important determinants of economic growth.

This dynamic helps explain why the economy has remained resilient despite elevated interest rates and widespread recession concerns. Strong labor market conditions and continued income growth have enabled consumers to maintain spending levels even as borrowing costs have increased.

However, beneath this resilience are signs of growing financial pressure.

Inflation has declined substantially from its peak in 2022, representing a meaningful achievement for policymakers. Yet consumers experience price levels, not inflation rates. While the rate at which prices are increasing has slowed, the cumulative increase in prices since 2020 remains significant.



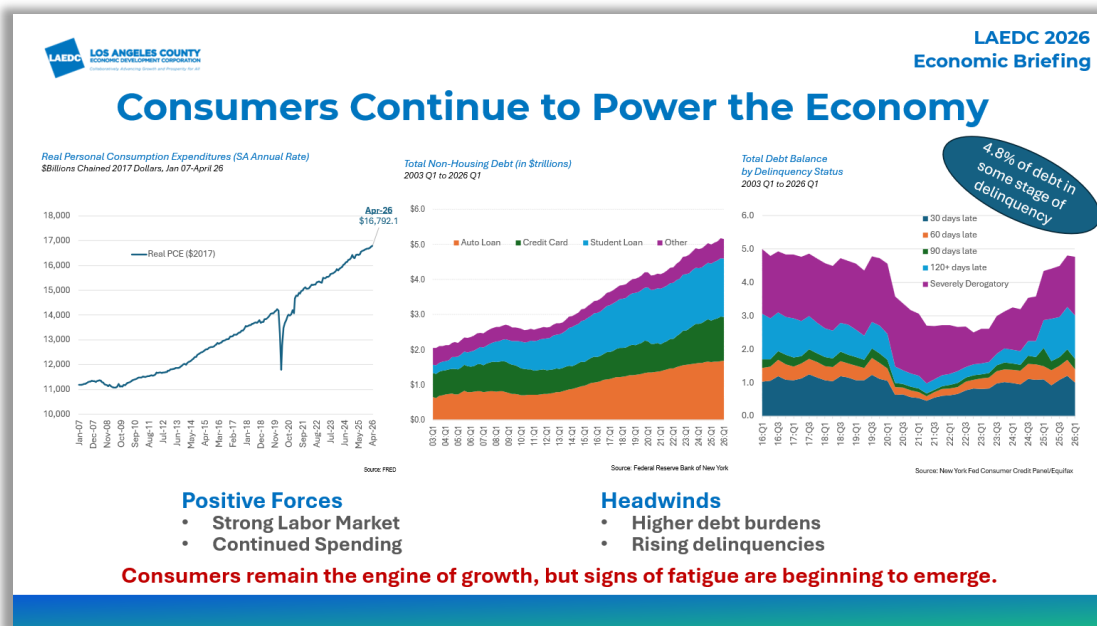
In practical terms, inflation may be slowing, but prices continue to remain far above pre-pandemic levels.

Housing costs, food prices, insurance premiums, healthcare expenses, and transportation costs have all risen substantially over the past several years. These increases have disproportionately affected lower- and moderate-income households, which spend a larger share of their income on necessities.

The cumulative impact of these higher costs is increasingly evident in household balance sheets.

Consumer debt has risen significantly since the pandemic, driven by increases in credit card balances, auto loans, student debt, and other forms of consumer borrowing. At the same time, delinquency rates have begun to rise, suggesting that some households are finding it increasingly difficult to manage financial obligations.

Compounding these pressures, household savings rates have declined from the elevated levels observed during the pandemic. Many households have exhausted the excess savings accumulated during the recovery period and now have less financial cushion available to absorb future shocks.



While household finances remain healthier than they were prior to the Great Recession, these trends indicate that many consumers are becoming increasingly stretched. Consumer spending has remained resilient thus far, but the margin for error has narrowed considerably.

One of the most notable economic developments of the past several years has been the disconnect between wage growth and purchasing power. Although nominal wages have increased substantially since 2021, inflation has eroded much of those gains. As a result, many households do not feel materially better off despite receiving pay increases.

This reality helps explain why consumer confidence remains weak despite low unemployment and continued economic growth.

The consumer has not quit. But signs of fatigue are becoming increasingly visible.

### **Implications for Los Angeles County**

The financial pressures affecting households nationally are often amplified in Los Angeles County due to higher housing costs, transportation expenses, and overall costs of living. For local governments and nonprofit organizations, growing household stress may translate into increased demand for services at the same time budgetary resources become more constrained. Consumer spending remains critical to the local economy, but continued affordability challenges represent a significant risk to future growth.

### ***Labor Markets Continue to Normalize***

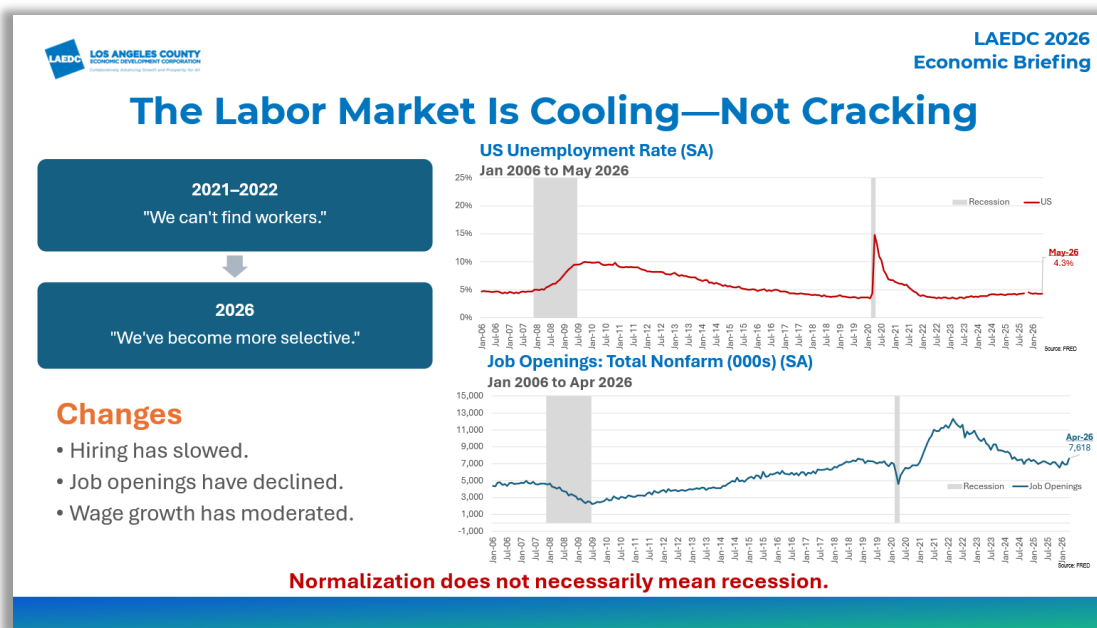
The labor market has remained one of the most resilient components of the U.S. economy throughout the post-pandemic recovery. Despite repeated predictions of a recession and slower economic growth, widespread layoffs have largely failed to materialize.

Instead, the labor market has entered what some economists describe as a "low-hire, low-fire" environment.

During the immediate post-pandemic period, employers across nearly every sector struggled to find workers. Labor shortages became one of the defining economic challenges of 2021 and 2022, contributing to wage pressures, delayed production, and elevated inflation.

Today, the labor market looks markedly different.

Employers have become more selective about hiring. Job openings have declined from their peak levels, wage growth has moderated, and voluntary job switching has slowed. Workers are staying in their current positions longer, while employers remain reluctant to reduce staffing levels after experiencing severe labor shortages only a few years earlier.



Importantly, slower hiring should not be confused with economic deterioration. National unemployment remains relatively low by historical standards, and employment levels continue to exceed pre-pandemic benchmarks.

Rather than signaling recession, current labor market conditions appear to reflect normalization. The extraordinary labor shortages that characterized the immediate post-pandemic period are gradually easing, allowing labor markets to move closer to long-term equilibrium.

At the same time, labor challenges have not disappeared entirely. Competition remains intense for highly skilled workers in sectors such as healthcare, information technology, engineering, data analytics, and finance. Employers continue to report difficulties filling specialized positions, particularly in industries facing demographic pressures or rapid technological change.

Artificial intelligence and automation are also beginning to influence labor market dynamics. While concerns regarding job displacement often dominate public discussions, the more immediate impact appears to be changing skill requirements and evolving workforce demands. The long-term economic significance of AI will depend largely on whether it generates meaningful productivity gains capable of offsetting slower labor force growth and other structural challenges.

### Implications for Los Angeles County

A cooling labor market may provide some relief to employers that have struggled with recruitment and retention over the past several years. However, workforce shortages remain a concern in several critical industries, particularly healthcare and technology. Continued labor market normalization is likely to ease wage pressures somewhat, but competition for

highly skilled workers will remain a defining challenge for many organizations throughout Los Angeles County.

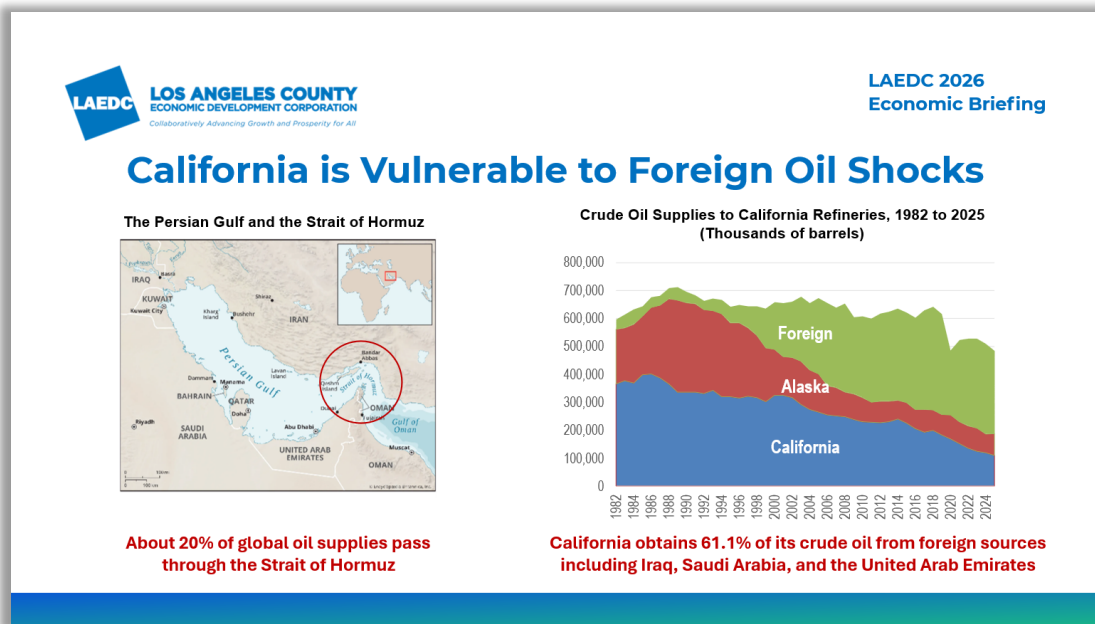
## Geopolitical Risk and Energy Markets

For much of the past two decades, geopolitical developments occupied a relatively minor role in economic forecasting. Economists focused primarily on business cycles, monetary policy, productivity, and housing markets. That environment has changed.

Events such as Russia's invasion of Ukraine, continued tensions between the United States and China, uncertainty surrounding Taiwan, and more recent developments involving Iran have demonstrated that geopolitical risks can have immediate and meaningful economic consequences.

The primary transmission mechanism is often energy.

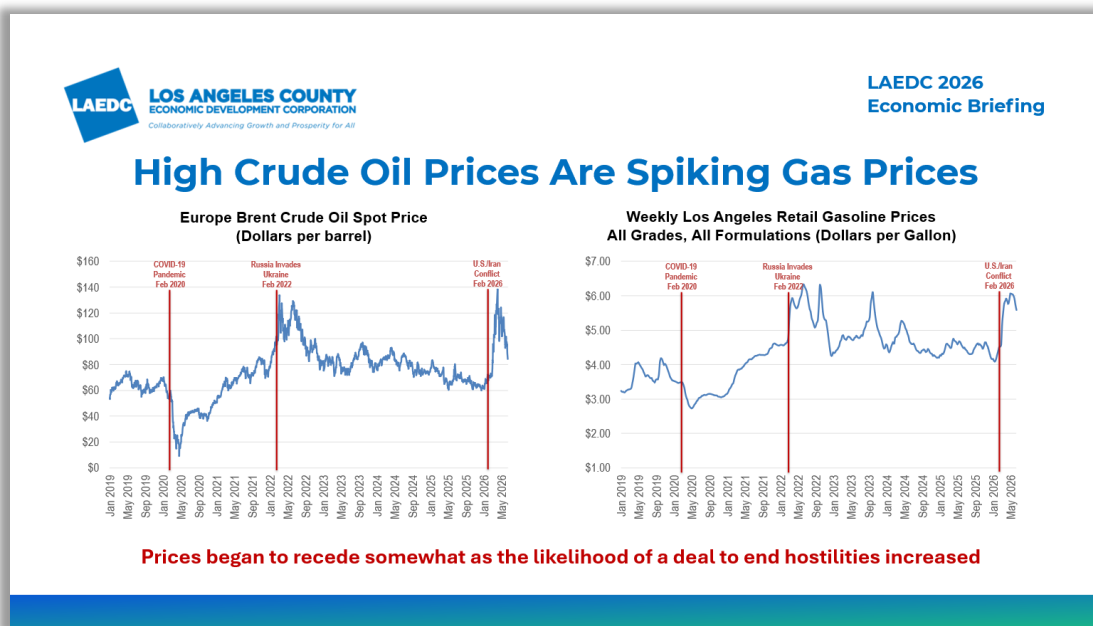
California is particularly vulnerable to global energy disruptions because of its increasing dependence on imported crude oil. Over several decades, declining in-state production and reduced Alaskan supply have increased reliance on foreign sources, including several countries located in or near the Persian Gulf.



This dependence creates exposure to supply disruptions and price shocks originating thousands of miles away. Roughly one-fifth of the world's petroleum supply passes through the Strait of Hormuz, making the region one of the most strategically important energy corridors in the world.

When geopolitical events threaten the movement of oil through these supply routes, energy markets respond quickly.

Recent tensions involving Iran contributed to significant increases in crude oil prices and corresponding increases in gasoline prices throughout California. Although prices subsequently moderated as prospects for de-escalation improved, the episode highlighted the continued vulnerability of consumers and businesses to global energy disruptions.



The economic implications extend well beyond the gas pump.

Higher energy prices affect transportation costs, manufacturing expenses, logistics operations, food prices, construction activity, and consumer confidence. Because energy serves as an input into nearly every sector of the economy, price increases can create inflationary pressures throughout supply chains.

For policymakers, rising energy costs complicate monetary policy decisions. Higher inflation driven by energy prices may limit the Federal Reserve's ability to lower interest rates, thereby extending the period of elevated borrowing costs.

For consumers, higher gasoline prices function much like a tax, reducing disposable income available for discretionary purchases and weakening overall economic activity.

### Implications for Los Angeles County

Los Angeles County's economy is particularly sensitive to global disruptions because of its extensive connections to international trade, logistics, transportation, and global supply chains. Rising energy costs increase operating expenses for businesses, raise transportation costs for households, and place additional pressure on already strained household budgets.

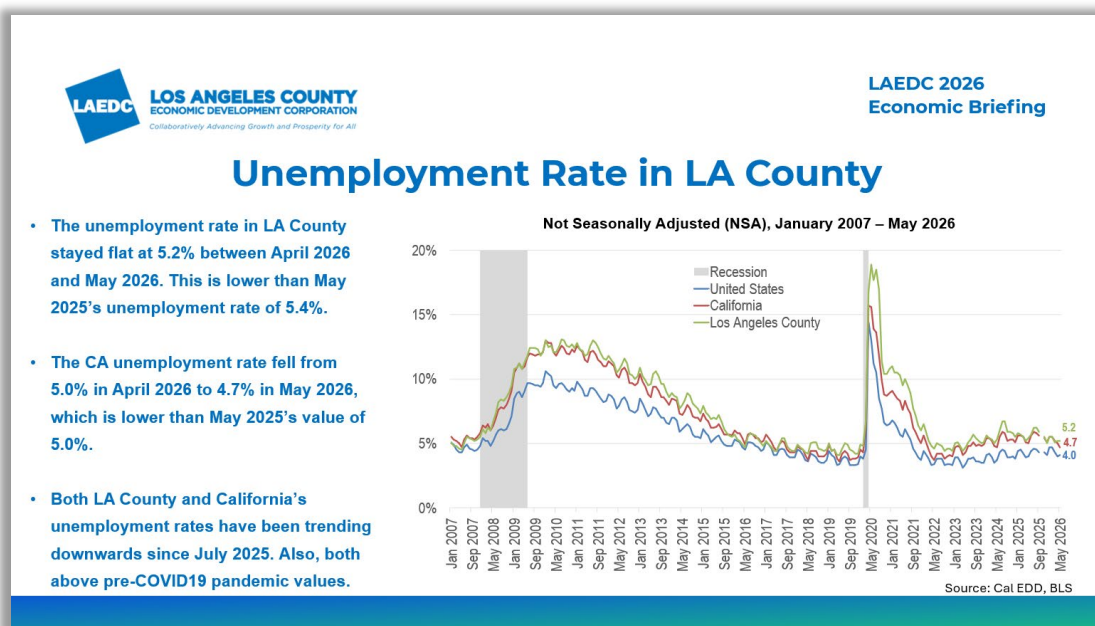
Continued geopolitical instability remains one of the most significant external risks facing the regional economy.

## Los Angeles County Employment Trends

The Los Angeles County labor market presents a more nuanced picture than national statistics alone might suggest.

While unemployment has generally trended downward over the past year, employment growth remains uneven across industries, reflecting broader economic transitions occurring throughout the region.

As of May 2026, Los Angeles County's unemployment rate stood at 5.2 percent, remaining above both the statewide and national averages. Although labor market conditions have improved compared with the previous year, unemployment remains somewhat elevated relative to pre-pandemic levels.



Employment growth has varied significantly across sectors.

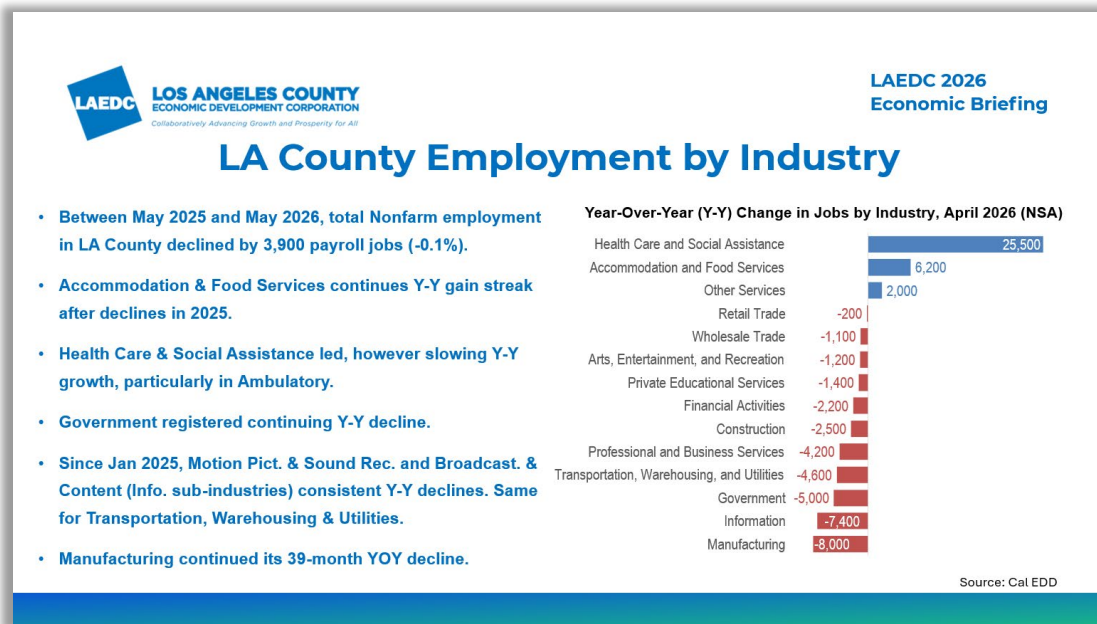
Construction has emerged as one of the strongest-performing industries, supported in part by rebuilding activity following the January 2025 wildfires. Wholesale trade has also demonstrated relative strength, reflecting continued activity within regional supply chains and goods movement industries.

Healthcare and social assistance continues to contribute substantial employment gains, although growth has slowed compared with recent years. Government employment, by

contrast, has experienced sustained declines, suggesting that budgetary pressures may be affecting hiring decisions at both the local and state levels.

Several industries continue to face ongoing challenges.

Manufacturing employment has remained in decline for more than three years. Information sector employment, including portions of the entertainment and media industries, continues to experience weakness. Transportation, warehousing, and utilities have also recorded employment losses despite the region's importance as a logistics hub.



## Job Postings

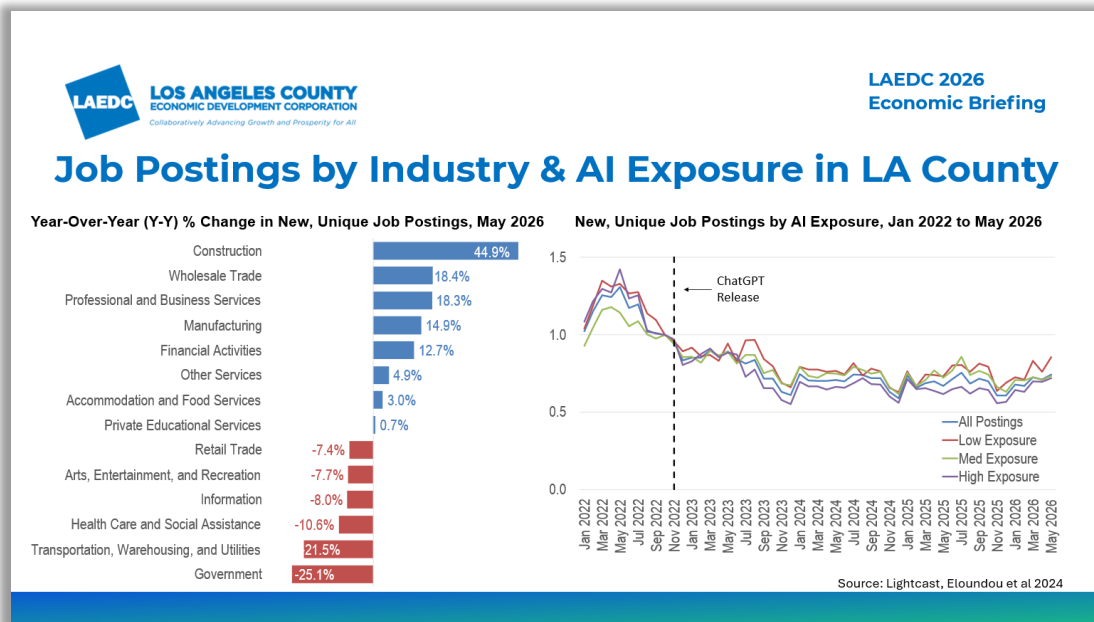
Job posting data provides additional insight into future labor market conditions.

Overall postings increased modestly during the past year, representing one of the few periods of year-over-year growth observed in recent years. Construction job postings increased sharply, suggesting continued demand associated with rebuilding activity and infrastructure projects. Manufacturing postings have also shown improvement despite ongoing employment declines.

At the same time, government, healthcare, transportation, and retail job postings have weakened, indicating that hiring demand remains uneven across industries.

Artificial intelligence may also be influencing labor demand patterns. While job postings have declined across occupations since the public release of generative AI tools, recent data suggests a modest recovery. Occupations with higher exposure to AI appear to be

experiencing different hiring trajectories than less exposed occupations, although the long-term implications remain uncertain.



### Implications for Los Angeles County

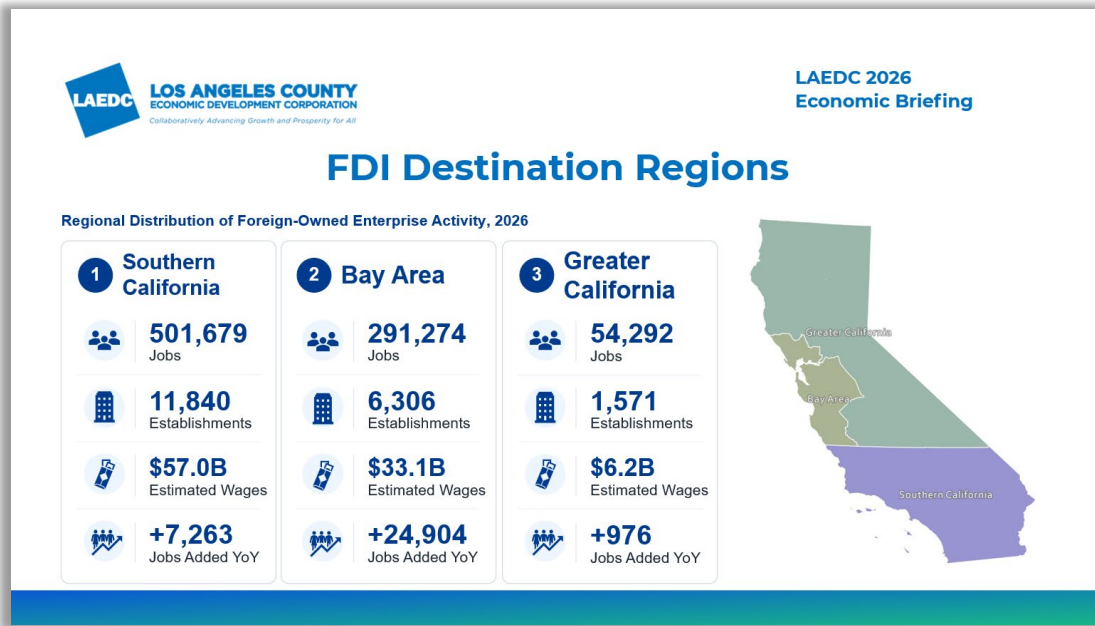
The County's labor market remains resilient but uneven. While sectors such as construction are benefiting from rebuilding activity, others continue to face structural challenges. Budget constraints, technological change, and evolving workforce needs are likely to shape employment trends over the coming years. Workforce development strategies that emphasize adaptability, upskilling, and sector-specific needs will remain critical.

### Foreign Direct Investment Continues to Support California and LA County

Foreign Direct Investment (FDI) remains an important contributor to California's economy and a significant source of employment, wages, and business activity throughout Los Angeles County.

According to LAEDC's 2026 Foreign Direct Investment in California report, foreign-owned enterprises support nearly 850,000 jobs statewide across approximately 19,700 establishments, generating more than \$96 billion in wages annually.

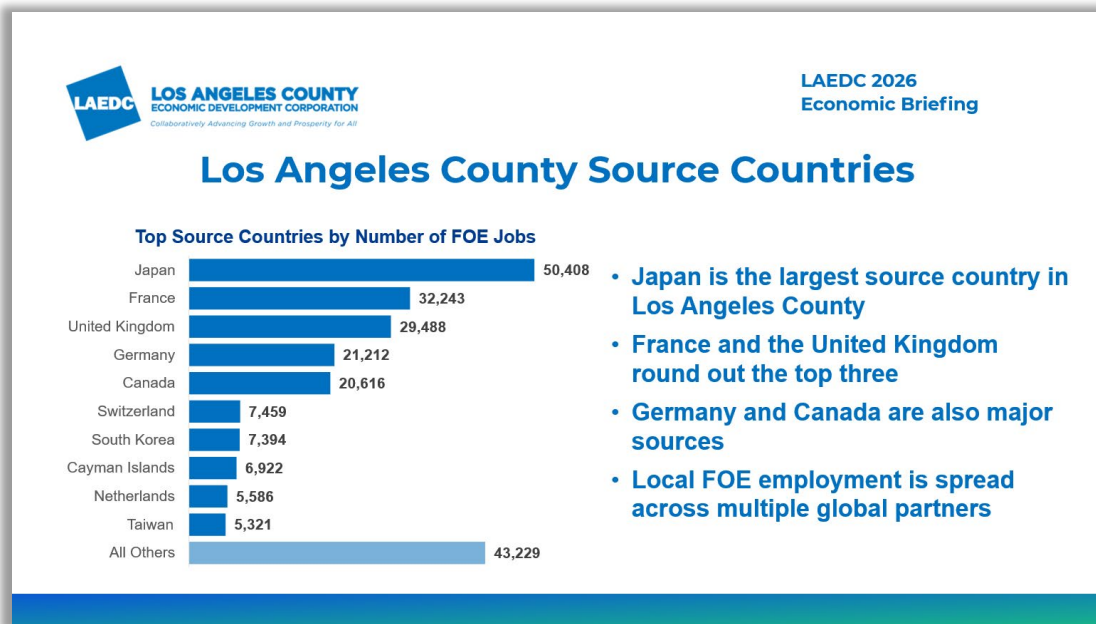
Southern California remains the state's largest foreign direct investment destination, accounting for approximately 60 percent of all foreign-owned enterprise employment statewide. Within Southern California, Los Angeles County serves as a major anchor, supporting nearly 230,000 jobs across more than 5,300 establishments and generating approximately \$28.8 billion in annual wages.



The scale of this employment base demonstrates the important role international investment continues to play in supporting regional economic activity.

Foreign-owned enterprises are deeply integrated into many of Los Angeles County's most important industries, including manufacturing, professional and business services, wholesale trade, information, financial activities, and transportation.

Los Angeles County's foreign investment base is also notable for its diversity. Japan, France, the United Kingdom, Germany, and Canada rank among the leading source countries supporting employment throughout the region.



This diversity reflects Los Angeles County's position as a global gateway economy with extensive connections to international trade, investment, logistics, technology, entertainment, and professional services.



At a time when geopolitical tensions and trade policy uncertainty are increasing, foreign direct investment remains an important indicator of California's continued attractiveness as a destination for global business activity.

### Implications for Los Angeles County

Foreign direct investment supports a substantial share of employment and wages throughout Los Angeles County. Maintaining a competitive business environment, investing in infrastructure, and strengthening global business relationships will remain important components of the region's long-term economic strategy.

### Opportunity Zone 2.0: A New Opportunity for Strategic Investment

While much of the current economic conversation focuses on inflation, interest rates, and labor markets, a quieter but potentially significant economic development opportunity is also emerging.

Opportunity Zones were originally established through the Tax Cuts and Jobs Act of 2017 as a place-based economic development initiative intended to encourage private investment in economically distressed communities. Through favorable tax treatment of eligible capital gains investments, the program seeks to direct private capital toward housing, businesses, commercial development, and community revitalization projects.

**LAEDC 2026 Economic Briefing**

## What Is an Opportunity Zone?

*A federal program that connects private investment with communities in need of economic opportunity.*

**THE CONCEPT**

- Place-based:** Designated census tracts with low income and high poverty.
- Investment tool:** Encourages private investment in these communities.
- How it works:** Investors put capital gains into a Qualified Opportunity Fund (QOF).
- The benefit:** Investors can defer or eliminate capital gains tax if they invest in an Opportunity Zone for at least 10 years.

**HOW THE INVESTMENT FLOWS**

```

graph LR
    Investor[INVESTOR  
Realizes a capital gain] --> QOF[QUALIFIED OPPORTUNITY FUND (QOF)  
Investor puts gain into a QOF]
    QOF --> Investment[INVESTMENT IN OZ  
Fund invests in real estate, operating businesses, or qualifying interests within an Opportunity Zone]
    Investment --> Impact[COMMUNITY IMPACT  
New development, business growth, jobs, and stronger neighborhoods]
            
```

**★ WHY IT MATTERS**

Opportunity Zones are designed to channel private capital to places that need it most—fueling investment, creating jobs, and supporting long-term community growth.

**📅** New Opportunity Zone designations in 2026 will shape investment opportunities through 2036.

The original Opportunity Zone program generated significant investment activity throughout the Los Angeles region, **attracting nearly \$1.8 billion in planned investment.**<sup>1</sup>

As the original designations approach expiration, a new designation process—commonly referred to as Opportunity Zone 2.0—is now underway.

**LAEDC 2026 Economic Briefing**

## Opportunity Zone 2.0 Designation

**Opportunity zone program is an investment tool to incentivize private investment into low-income and high-poverty communities.**

Current designations will expire in 2028. Cities can nominate their census tracts for opportunity zone designation under the 2.0 program this summer.

The Institute for Applied Economics can help cities identify the best census tracts for nomination and provide key data points to support the City's application.

**\* Contact Madeleine Waddoups, [madeleine.waddoups@laedc.org](mailto:madeleine.waddoups@laedc.org) for support**

Source: Novogradac Opportunity Zone Mapping Tool

The significance of Opportunity Zone 2.0 extends beyond the designation process itself. The new program will shape where certain types of investment opportunities may exist over the

<sup>1</sup> <https://www.novoco.com/notes-from-novogradac/novogradac-tracked-qofs-invest-in-49-states-373-cities-residential-still-primary-target>

coming decade, potentially influencing housing development, business growth, infrastructure investment, and economic activity throughout participating communities.

Governor Newsom will submit census tracts for designation to the Department of Treasury in the fall of 2026. *To be considered for designation, cities in California can nominate eligible census tracts to the Governor's Office of Business and Economic Development by July.8* When making their decision, the state will consider regional economic development priorities, housing needs, site readiness, and public investment commitments.

**LAEDC 2026 Economic Briefing**

**Opportunity Zone 2.0: Strategic Alignment Will Matter**

Opportunity Zones should not simply reflect where poverty exists—they should reflect where communities have a vision for growth.

**Competitive Advantage**

- Advance Regional Economic Priorities  
*California Jobs First Economic Blueprint*
- Support Affordable Housing  
*Leverage private investment Address housing shortages*
- Include Shovel-Ready Sites  
*Site readiness Speed to market Infrastructure*
- Demonstrate Public Commitment  
*EPDs TIF districts Planned public investments*

LA attracted nearly **\$1.8B** in planned Opportunity Fund investment under the OZ 1.0 program

\* Contact Madeleine Waddoups, [madeleine.waddoups@laedc.org](mailto:madeleine.waddoups@laedc.org) for support

Particularly important is the program's alignment with California Jobs First regional priorities. Across Los Angeles County and the broader Southern California region, target sectors include aerospace manufacturing, bioscience, clean energy, healthcare, transportation and logistics, construction, and media production.

For local governments, Opportunity Zones should be viewed not simply as a tax incentive program, but as a potential tool within a broader economic development strategy.

Designation alone does not guarantee investment. However, Opportunity Zones can enhance the attractiveness of eligible areas by providing an additional incentive for private capital to support projects that align with community priorities.

The current designation process also provides an opportunity for cities to evaluate how future investment opportunities align with housing goals, economic development objectives, infrastructure investments, and long-term community plans.

## Implications for Los Angeles County

Opportunity Zone 2.0 presents an opportunity to leverage private capital in support of housing production, economic development, and community revitalization. While the designation process itself is time-sensitive, the potential impacts extend well beyond the current application period. Local jurisdictions should evaluate Opportunity Zones as part of a broader strategy to attract investment, support economic growth, and advance regional priorities.

## Looking Ahead

The economy entering the second half of 2026 is neither booming nor contracting. Instead, it is transitioning.

The extraordinary conditions that defined the pandemic recession, rapid recovery, inflation shock, and subsequent policy response are gradually fading. In their place emerges an environment characterized by slower growth, elevated uncertainty, evolving labor markets, geopolitical risks, and significant technological change.

### Several questions will continue to shape the outlook over the coming quarters:

- Will inflation continue moving toward the Federal Reserve's target?
- Can consumers sustain spending as financial pressures increase?
- Will labor markets continue to normalize without triggering significant job losses?
- How will geopolitical developments affect energy prices and inflation?
- Will productivity gains from artificial intelligence begin to materialize?
- How will policy decisions related to trade, immigration, and fiscal policy influence economic growth?

For Los Angeles County, these national and global trends will continue to intersect with local challenges and opportunities. The region's diverse economy, global connectivity, innovation assets, and workforce strengths position it well for long-term success, but uncertainty will remain an important feature of the economic landscape.

The most likely path forward is not one of recession or rapid expansion, but rather a period of slower growth, continued adjustment, and strategic adaptation. In that environment, flexibility, resilience, and long-term planning will remain essential for businesses, governments, nonprofits, and communities alike.

LAEDC LOS ANGELES COUNTY
LAEDC 2026  
Economic Briefing

## What Economists Are Watching

- Will inflation remain under control?
- Can consumers continue spending?
- Will productivity accelerate?
- Will policy uncertainty intensify?
- Will higher interest rates persist?

