

# The US is insulated, but not immune to the Middle East conflict

The US is a net energy producer, but higher oil, gas and electricity prices risk amplifying the effects of trade tariffs, resulting in squeezed household spending power and a weaker corporate profits backdrop. Economic and geopolitical uncertainty won't prompt a rebound in worker hiring either, but inflation will limit the scope for imminent rate cuts



Rising global energy prices threaten to squeeze US household spending power and delay Federal Reserve rate cuts

## Higher energy costs compound tariff concerns

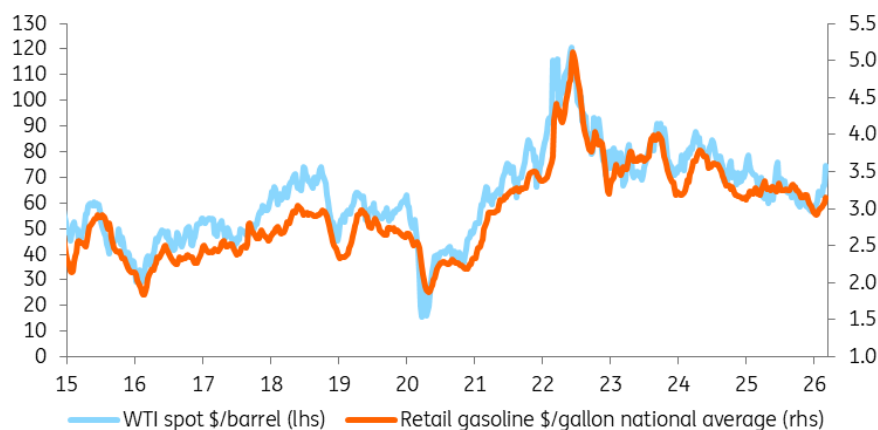
The US has been a net energy exporter since 2019, and while that should insulate the economy from oil and gas flow disruption in the Middle East, it doesn't mitigate all the risks. The US refinery make-up still requires the need for some heavier, foreign-sourced crude – around 3.5% of the oil consumed in the US comes from Saudi Arabia and the Persian Gulf. Moreover, US oil prices take their cue from global markets. A sustained move in WTI crude above \$75/barrel would mean we are on course for US gasoline to breach \$3.75/gallon versus \$3 currently. Higher airline fares and transport and distribution costs would follow.

US natural gas prices have also increased in line with global benchmarks, and that threatens

higher electricity costs in the US too. Corporate America, which is already largely carrying the burden of tariff costs, will have to make a call on whether to raise prices or shrink profit margins further.

Given this situation, we suspect that US headline inflation will move back above 3% during the second quarter and may not drop below 3% until the end of the year. It also means we must acknowledge the risk that 2% inflation isn't achieved until the second half of 2027.

## US oil & retail gasoline prices



Source: Macrobond, ING

## Squeezed spending power threatens growth

This will squeeze consumer spending power, particularly for lower and middle-income earners, in an environment where real household disposable incomes have effectively flatlined for the past six months. The fact that there are now more unemployed Americans than there are job vacancies suggests wage growth risks dropping below 3% this year. High-income households are in a stronger position, buoyed by large property and stock market gains.

It is certainly true that higher energy prices may help to incentivise more investment in the US energy sector after the fourth-quarter 2025 GDP report again highlighted the bifurcation in corporate capital expenditure. Tech-related investment tied to software and computing power is growing 25% year-on-year, yet all other business capital expenditure has fallen in year-on-year terms for five straight quarters. This lack of breadth in the growth story is similarly seen in the jobs market, where, outside three sectors – leisure & hospitality, government and private education & healthcare services – the economy has lost more than 400,000 jobs since August 2024.

## Fed rate cuts delayed, not cancelled

For now, we are forecasting GDP growth of 2.6% this year. The first quarter will be lifted by a rebound in federal government spending after the shutdown in the first six weeks of 4Q25, with strong tech-related investment and high-income consumer spending keeping the US economy moving along nicely in the second quarter.

However, the lack of breadth to the US growth story may become more of a vulnerability in the second half of the year. The longer energy costs stay elevated, the greater the risk it becomes demand destructive, which dampens inflation pressures over the medium to longer term.

The Fed will likely be nervous about headline inflation initially, but if the core metrics (excluding food and energy) start to cool, officials will likely become more comfortable cutting interest rates a couple of times in the second half of the year.

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