WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | August 21, 2026

THE WEEK'S ECONOMY AT A GLANCE

The long view
For much of the past year, the economic conversation has centered on whether higher interest rates would meaningfully slow growth. This week's developments suggest the more important question may be how the economy is adapting to an environment defined by elevated borrowing costs, lingering inflation concerns, and mounting fiscal pressures. The July Federal Open Market Committee (FOMC) meeting minutes revealed a Federal Reserve that remains focused on returning inflation to target, while stronger-than-expected business surveys pointed to renewed momentum across much of the private sector. At the same time, weakness in housing activity and renewed attention on the nation's fiscal outlook served as reminders that not every corner of the economy is moving in the same direction. Together, these developments paint a picture of an economy that remains resilient, but is increasingly confronting longer-term questions about growth, inflation and fiscal sustainability.

What this means for business: *A resilient economy is creating new opportunities, but persistent uncertainty around inflation, interest rates, and fiscal policy argues for thoughtful, flexible business planning.*

Quote of the week

Even as economic momentum proves stronger than expected, the conversation is increasingly shifting toward the longer-run challenges and opportunities that will shape growth in the years ahead.

Beth Ann Bovino*, Chief Economist, U.S. Bank*

ECONOMIC DATA OF THE WEEK

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Buried within the July FOMC meeting minutes was a proposal from Chair Kevin Warsh to reduce the number of scheduled FOMC meetings from eight to six per year, giving policymakers more information and time to “consider strategic monetary policy decisions” between meetings. No decision was made, and any change would not affect the remainder of the 2026 calendar.

In our view, the proposal fits with Warsh’s broader effort to focus the Fed on longer-term economic and monetary policy questions rather than reacting to every short-term movement in the data. That said, fewer meetings could also mean fewer opportunities for the Fed to clarify its thinking, potentially leaving market

ECONOMIC REPORT OF THE WEEK

FOMC meeting minutes

The July 28-29 FOMC meeting minutes reinforced a Federal Reserve that remains on hold but continues to view inflation as the primary risk to achieving its dual mandate. While policymakers voted to leave the federal funds rate unchanged at 3.50% to 3.75%, the discussion revealed broader support for additional tightening than the three dissents alone might suggest, with ‘several’ participants favoring a 25-basis-point increase at the meeting. Policymakers generally described economic growth as solid and labor market conditions as stable, though ‘some’ questioned whether financial conditions were sufficiently restrictive to return inflation to the Committee's 2% objective.

The discussion also highlighted lingering concern that inflation could prove more persistent than anticipated. Participants noted that price pressures remained elevated across a broad range of goods and services categories, with several observing that underlying inflation appeared firm even after excluding categories most directly affected by tariffs and energy prices.

U.S. Bank Economics Research Group

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The minutes also revealed continued discussion around AI, with policymakers debating whether the technology's influence on investment, productivity, labor markets and inflation is becoming large enough to affect the broader economic outlook. ‘Many’ indicated that additional policy tightening could become necessary if inflation failed to decline, while some argued that acting sooner could help avoid a steeper and potentially more costly adjustment later. At the same time, most participants continued to expect inflation to moderate over the remainder of the year,

ECONOMIC REPORT OF THE WEEK

FOMC meeting minutes *continued*

and longer-term inflation expectations were generally viewed as remaining consistent with the Committee's 2% objective.

Beyond the policy debate, the minutes also provided a glimpse into Chair Kevin Warsh's broader vision for the Federal Reserve, including the meeting schedule proposal discussed above. Taken together, the July meeting minutes portray a central bank that remains patient but increasingly attentive to the risk that inflation could prove more difficult to fully extinguish. While softer employment and inflation data released since the meeting may reduce the urgency for additional tightening, U.S. Bank Economics continues to expect a 25-basis-point rate hike later this year.

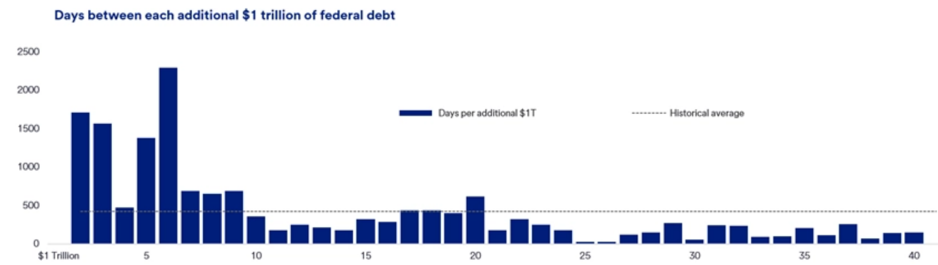
ECONOMIC TRENDS: MONETARY POLICY

Federal debt: The snowball effect

The Treasury reported total gross federal debt of about $40 trillion this week, with the 10-year Treasury yield climbing to 4.72% midweek before it settled down to 4.65%. The size of the debt and the long-end Treasury supply fears, rather than economic conditions, reportedly explain the movements. With good reason.

Total Gross Federal Debt Outstanding has grown from $1 trillion in 1981 to $40 trillion today. The ratio of U.S. general government debt to GDP is estimated to have reached 125.8% in 2025, double the 64% seen in 2007, before the financial crisis (IMF). Furthermore, adding an additional $1 trillion dollars to total debt is happening at a much faster pace! From 1982 to 1999 it would take, on average, 635 days – or just under two years – for the federal government to add another $1 trillion dollars to the total debt.

But since 2020, it takes one-fourth the time, about 152 days, on average, for the federal government to add another $1 trillion dollars to total federal debt.



U.S. Bank Economics, Bloomberg, U.S. Treasury Department

Former U.S. Treasury Secretary Janet Yellen raised alarms last year when the debt reached $38 trillion. She said that conditions that could lead to fiscal dominance are becoming stronger as debt rises above $38 trillion and continues climbing relative to GDP. She noted that fiscal dominance is a situation where the government's financing starts to constrain the Fed's ability to conduct monetary policy efficiently. With the Fed turning its dials to combating higher prices, we'd love to know what she thinks today.

The level of debt on its own is not the whole story. The danger is that federal debt and interest costs are now rising at a much faster pace, limiting the Fed's ability to do its job and pursue price stability independently. For the most part, markets haven't taken much notice of the rapid increase in debt levels. But once markets start to worry, higher term premiums, inflation expectations and long-term rates would follow.

The bottom line: The challenge to the private sector is to manage finances, now that chances are for a higher rate environment. Fortunately, most debt is financed with long-term fixed rate debt, to provide cushion over the near term.

ECONOMIC TRENDS: HOUSING SECTOR

Housing still waiting for lower rates

While much of the broader economy has proven resilient to higher interest rates, housing remains a notable exception. New residential construction weakened in July, with housing starts falling more than 12% to a seasonally adjusted annual rate of 1.24 million units. However, the report was not uniformly weak. Permits for future construction rose 5% during the month and reached their highest level since early 2025, suggesting builders remain more optimistic than the starts data alone might imply. Given the unusual volatility in residential construction this year, at least some of July's weakness could prove temporary.

U.S. housing starts

Millions of units, annual rate

U.S. building permits

Millions of units, annual rate

U.S. Bank Economics, Bloomberg, U.S. Census Bureau

Even so, the housing market continues to face meaningful headwinds. Single-family starts were particularly noteworthy, falling nearly 10% in July to their lowest level since late 2022. While that decline bears watching, other indicators paint a somewhat less concerning picture. Single-family permits increased during the month and remain broadly consistent with their range of the past two years, suggesting builders have not materially altered their near-term plans.

At the same time, builder sentiment remains subdued, with the National Association of Home Builders' Housing Market Index holding at just 35 in August, marking more than two years below the neutral 50 threshold. Builders continue to rely heavily on incentives, including mortgage rate buydowns, to attract buyers, while elevated inventories of new homes and ongoing affordability challenges have reduced the urgency to break ground on additional projects.

Otherwise, mortgage rates remain a central part of the story. After moving higher through much of the spring and early summer, the average rate on a 30-year fixed mortgage has recently stabilized near 6.80%. While mortgage spreads relative to U.S. Treasury yields have largely returned to normal, borrowing costs remain high by post-financial crisis standards. As a result, meaningful relief for affordability will likely require lower long-term Treasury yields, slower home price appreciation, or some combination of both. Although housing starts could rebound from July's unusually weak reading, elevated borrowing costs, soft builder sentiment, and affordability challenges are likely to keep residential construction activity subdued in the months ahead.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Growth finds a second wind

The latest S&P Global Purchasing Managers' Indexes (PMIs) suggest the U.S. economy continues to expand at a healthy pace. The composite output index rose to 56.0 in August, its highest level since early 2022, pointing to a notable acceleration in private sector activity midway through the third quarter. The results challenge the notion that higher interest rates are materially restraining growth, instead indicating that businesses continue to report solid demand, rising output, and growing confidence about the months ahead. Reflecting that optimism, the survey's measure of future business expectations climbed to a nine-month high.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Growth finds a second wind *continued*

Beneath the surface, however, the composition of growth has shifted. Earlier this year, manufacturing activity was supported by inventory accumulation and efforts to guard against supply disruptions. That dynamic now appears to be fading. The manufacturing PMI slipped to a five-month low of 53.2 in August, while services activity accelerated to its fastest pace since late 2024. The transition suggests the expansion is becoming increasingly reliant on consumer spending and service-sector demand rather than inventory building and goods production. Encouragingly, new orders continued to expand across both sectors, pointing to a still-supportive demand environment.

The report also contained several encouraging signals regarding both the labor market and inflation. Employment increased at the fastest pace since January 2025 as businesses added staff to accommodate stronger demand and growing order backlogs. At the same time, both input-cost and selling-price inflation moderated, with fewer businesses reporting the need to pass along higher fuel and energy costs. While supply chain disruptions and elevated energy prices remain concerns, the August survey suggests price pressures may be easing even as growth accelerates.

Taken together, the PMI data reinforce a theme emerging across recent economic data releases. Growth remains resilient, businesses appear increasingly optimistic, and inflation pressures are gradually moderating. While pockets of softness remain, particularly in housing, the latest survey evidence suggests the economy may have entered the second half of the year with more momentum than expected.

U.S. Bank Economics, Bloomberg, National Association of Realtors (NAR); Mortgage Bankers Association (MBA)

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: All eyes on Jackson Hole

The week's economic calendar is highlighted by July Personal Income and Spending data and the Federal Reserve's preferred inflation gauge, the Personal Consumption Expenditures (PCE) price index, on Wednesday. We will also receive the second estimate of second-quarter GDP growth before attention shifts to Fed Chair Kevin Warsh's keynote address at the Federal Reserve Bank of Kansas City's Jackson Hole Economic Symposium on Friday. Together, these reports should provide fresh insight into inflation, consumer spending and the broader outlook for monetary policy.

We expect July's PCE report to show inflation remaining relatively contained. Headline PCE prices are expected to rise 0.1% over the month, lowering the annual rate to 3.6%, while core PCE inflation is projected to increase 0.2%. Personal income likely increased 0.2% for a second consecutive month, while consumer spending likely slowed to a modest 0.1% gain following a stronger June that was supported by temporary factors, including Amazon Prime Day promotions and World Cup-related activity. While spending growth may cool, we do not view that moderation as evidence of a meaningful deterioration in underlying consumer demand.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: All eyes on Jackson Hole *continued*

Also on Wednesday, we expect the second estimate of second-quarter GDP growth to be revised slightly higher, to a 1.6% annualized pace from the initial 1.5% reading. The upward revision is likely to reflect stronger inventory accumulation and is not expected to materially alter the broader picture of an economy that continues to expand at a modest but resilient pace.

The week's main event arrives on Friday when Chair Warsh takes the stage at Jackson Hole. Markets will be listening closely for any updated views on inflation, the path of monetary policy, and the Fed's ongoing review of its policy framework and communications strategy. Following recent discussions surrounding a potential reduction in the number of scheduled FOMC meetings and the launch of several policy-review task forces, investors will be looking for additional clues regarding Warsh's broader vision for the Federal Reserve. While major policy announcements are not expected, the speech could help shape expectations for the remainder of the year.

Taken together, next week's releases should offer an important update on the economy's trajectory heading into the fall. While the economic data will help clarify the outlook for inflation and consumer spending, Chair Warsh's remarks at Jackson Hole could ultimately prove to be the week's most closely watched event.

ECONOMIC DATA CALENDAR THIS WEEK

What we're watching this week, including release dates and projections from the U.S. Bank Economics Research Group.

U.S. economic calendar - August 24 through August 28

Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
8/25/2026	8 a.m.	**S&P/Case-Shiller home prices (MoM)**	Jun	**0.1**	0.1	0.2
		FHFA home prices (MoM)	Jun	**0.2**	0.2	0.3
	9 a.m.	**New home sales (000)**	Jul	**615**	620	628
		Conf. Board Consumer Confidence	Aug	**90.0**	90.2	90.8
8/26/2026	7:30 a.m.	**Personal income (MoM)**	Jul	**0.2**	0.2	0.2
		Personal spending (MoM)	Jul	**0.1**	0.1	0.3
		PCE Deflator (MoM)	Jul	**0.1**	0.1	-0.1
		PCE Deflator (YoY)	Jul	**3.6**	3.6	3.7
		Core PCE Deflator (MoM)	Jul	**0.2**	0.2	0.1
		Core PCE Deflator (YoY)	Jul	**3.3**	3.3	3.3
		Durable goods orders (MoM)	Jul P	**0.5**	0.5	0.5
		Durable goods ex Transportation (MoM)	Jul P	**0.5**	0.5	0.7
		Capital goods orders nondef. ex. aircraft	Jul P	**1.0**	1.0	1.2
		GDP 2nd update (QoQ %)	2Q S	**1.6**	1.5	1.5
8/27/2026	7:30 a.m.	**Advance Goods Trade Balance**	Jul	**-99.0**	-99.5	-101.4
		Retail Inventories (MoM)	Jul			-0.2
		Wholesale Inventories (MoM)	Jul P			0.2
		Initial Jobless Claims	22-Aug	**205**	208	206
8/28/2026	8:45 a.m.	**Chicago PMI**	Aug	**59.0**	59.0	57.6
	9 a.m.	**U. Mich. Consumer sentiment**	Aug F	**50.6**	51.0	51.0

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 8/21/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

August 28, 9 a.m.: Chris Warsh (Board of Governors/Voter)

Disclosures

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