WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | January 9, 2026

THE WEEK'S ECONOMY AT A GLANCE

Soft jobs, hard truths

Decision-makers entered the new year with mixed signals: labor data softened further, manufacturing stayed in contraction, and talk about fiscal concerns resurfaced. December's jobs report showed payroll growth barely positive and revisions pulling the three-month average negative, while Fed Chair Jerome Powell's warning on overstated employment adds weight to upcoming benchmark revisions. Meanwhile, JOLTS confirmed a 'low-hire, low-fire' dynamic, ISM surveys highlighted holiday-driven strength in services against persistent factory weakness, and former Fed Chair Janet Yellen cautioned about 'fiscal dominance' in U.S. monetary policy. With inflation data next week set to clarify whether recent distortions mask underlying price pressures, the Fed remains firmly in data-dependent mode.

What this means for business: *For business , a cooling labor market and rising term premiums signal tighter margins ahead. Slower hiring and wage growth may ease costs pressures, but potentially higher borrowing costs and cautious consumer spending could weigh in investment and revenue plans.*

Quote of the week

Fiscal dominance is no longer classroom talk. As former Fed Chair Janet Yellen notes, if nothing is done, markets will eventually doubt future government surpluses and inflation expectations will become unmoored despite Fed hikes. It's just a matter of time. Let's hope common sense prevails.

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

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ECONOMIC DATA OF THE WEEK

-76,000

This week's standout figure is -76,000 – the combined downward revision to October and November payrolls in the December jobs report. These adjustments deepen the slowdown and underscore that prior strength was overstated, pulling the three-month average for job growth into negative territory at year-end.

ECONOMIC REPORT OF THE WEEK

December employment report

Two dynamics merit attention after Friday's December Employment Report. First, the composition of revisions continues to reveal a weaker late-2025 than initially reported, reinforcing that headline stability masks slower underlying momentum. Second, Fed Chair Powell has warned that official payrolls may have been overstated by roughly 60,000 per month since spring due to birth-death model issues – implying that "true" job growth could have been negative for much of the second half of 2025, a risk that may be confirmed by benchmark revisions in early February. Together, these factors suggest the labor market is loosening at the margin, even as layoffs remain contained.

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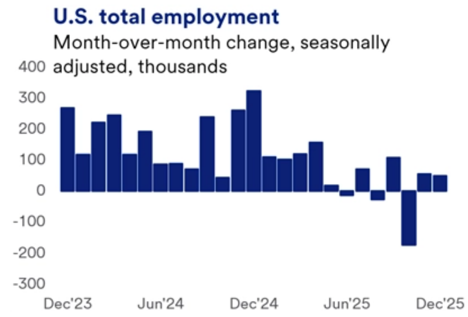
ECONOMIC TRENDS: LABOR LANDSCAPE

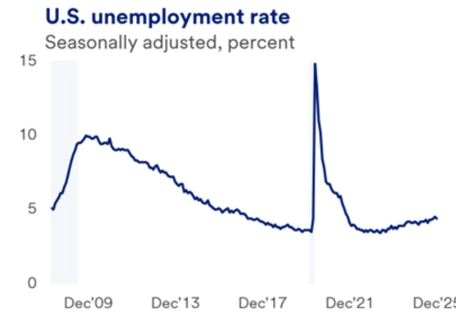
December jobs undershoot, unemployment edges down

December's employment report highlighted a labor market losing momentum without tipping into outright contraction. Nonfarm payrolls rose by a modest +50,000 – in line with our forecast (consensus: +70,000), extending the sharp slowdown that began early in 2025. Revisions lowered November to +56,000 (from +64,000) and October to -173,000 (from -105,000), netting -76,000 and pulling the three-month average into negative territory (-22,000). This compares to more than +200,000 per month at the start of 2025, and represents the weakest stretch since the pandemic recovery period. That said, October's sharp revision was driven by a –162,000 drop in federal employment, tied to deferred resignation programs and post-shutdown workforce cuts.

Beneath the surface, hiring breadth remains narrow. Private payrolls rose only +37,000 – roughly matching the sluggish pace since May. Healthcare and leisure/hospitality continued to add jobs, while retail trade and goods-producing sectors shed positions – signaling resilience in select service pockets but broad caution elsewhere. Temporary help services – a bellwether of forward labor demand – declined again, underscoring firms' hesitancy to expand staffing. Average hourly earnings grew 3.8% year-over-year (YoY), while the average workweek ticked down to 34.2 hours, both consistent with cooling labor demand.

Household data offered mixed signals. The unemployment rate unexpectedly fell to 4.4% from a revised 4.5% in November (previously 4.6%), largely due to a slight dip in labor force participation (62.4% vs. 62.5%). The decline was concentrated among Black workers (63.8% vs. 63.9%), while White participation held steady at 61.8%. Broader underemployment (U-6) edged down to 8.4% (from 8.7%) but remains elevated – pointing to slack not captured by the headline rate.





Sources: U.S. Bank Economics, Bloomberg, Bureau of Labor Statistics (BLS)

Bottom line: December's mix – soft hiring, contained layoffs, slightly lower unemployment and wage growth near prepandemic pace – supports a data-dependent pause in January to preserve optionality. With hours edging down and hiring concentrated in a handful of service industries, risks are skewed toward slower income growth and softer consumption into early 2026. If benchmark revisions validate Powell's warning, the case strengthens for additional easing later in 2026 – but without urgency so long as layoffs remain limited and inflation progress holds.

ECONOMIC TRENDS: LABOR LANDSCAPE

Churn on Ice: Labor market still in neutral

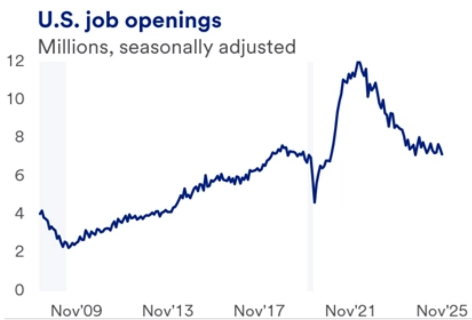
The November Job Openings and Labor Turnover Survey (JOLTS) report reinforced the picture of a labor market that is cooling gradually rather than collapsing. Job openings fell by more than 300,000 to 7.15 million – the second-lowest level since the pandemic – while the openings-to-unemployed ratio slipped to 0.91, its weakest reading since 2017. This marks a further step toward prepandemic norms and suggests that labor market tightness is no longer a source of inflationary pressure.

ECONOMIC TRENDS: LABOR LANDSCAPE

Churn on Ice: Labor market still in neutral *continued*

Beneath the headline, churn remains historically muted. Layoffs edged down to 1.1%, signaling that employers remain reluctant to shed workers even as job-switching opportunities stay scarce as quits remain near decade lows. The hiring rate declined to 3.2%, matching its cycle low and this "low-hire, low-fire" dynamic continues to define the postpandemic labor market, with firms cautious of labor force expansion and workers less mobile.

Overall, the latest JOLTS release did little to alter the broader narrative: labor demand is softening at the margins, not breaking down. For policymakers, these data reinforce a view of a market in delicate equilibrium – one that is unlikely to drive inflation higher but may keep job growth subdued in the months ahead.



: Sources: U.S. Bank Economics, Bloomberg, Bureau of Labor Statistics (BLS)

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

ISM PMIs: Holiday tailwinds in services, hard truths in manufacturing

December's Institute for Supply Management (ISM) surveys closed the year with a familiar split: services accelerated while manufacturing remained mired in contraction. The ISM Services PMI (Purchasing Managers' Index) climbed to 54.4, its highest in over a year, buoyed by holiday demand and broad-based gains in business activity and new orders. Employment edged back into expansion for the first time since May, while price pressures cooled slightly but stayed elevated. Respondents generally described conditions as "healthy," though tariff uncertainty and staffing shortages linger as risks heading into 2026.

Manufacturing told a different story. The ISM Manufacturing PMI slipped to 47.9, marking the tenth consecutive month of contraction. Production held modestly above the 50-threshold that signals expansion, but new orders and employment remained weak. Inventories fell sharply, and comments largely pointed to higher product costs tied to tariffs and restrained hiring due to uncertain demand. While customers' inventories were reported as "too low" – a potential precursor to restocking – order flows will need to improve before any rebound takes hold.

Sources: U.S. Bank Economics, Bloomberg, Institute of Supply Management (ISM)

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

ISM PMIs: Holiday tailwinds in services, hard truths in manufacturing *continued*

Beneath the surface, three dynamics stand out. First, services momentum was seasonal and may fade as year-end effects unwind, though easing trade frictions and improved export orders suggest some underlying resilience. Second, manufacturing remains demand-constrained, with lean inventories and cautious hiring both signaling defensive postures. Third, tariff mentions have lessened in services but persisted in factory responses, underscoring uneven exposure to trade policy across sectors.

For the Fed, the picture remains mixed: sticky service-sector inflation and modest labor improvement argue for patience, while persistent manufacturing weakness adds weight to an eventual easing bias. Net-net, December's PMI data reinforces a bifurcated economy – one where services carry near-term growth while factories wait for a clearer demand signal in the new year.

ECONOMIC TRENDS: MONETARY POLICY

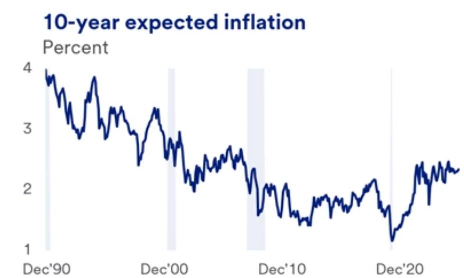
When debt talks, rates listen

Former Fed Chair Janet Yellen warned this week that U.S. government debt is on an unsustainable trajectory – a scenario where fiscal needs begin to constrain monetary policy. She notes that it's not just the size of the obligations, at $38 trillion, but "little" political appetite to adjust course. She highlighted that if households and investors do not believe taxes will eventually rise to cover that debt, they see the large deficits as a "gift" rather than a loan to be repaid in the future. In such an environment, the Fed's ability to set rates based on its dual mandate could be compromised, raising concerns about central bank independence. The debt-to-GDP ratio, currently around 120%, is projected to exceed 150% over the next few decades.

Without reforms to taxes and spending, the government may eventually face a choice: restructure fiscal policy or erode the real value of debt through higher inflation.

If markets begin to anticipate the latter, it would show up as higher inflation expectations and a rising term premium – the extra yield investors demand for holding longer-term bonds. That shift would push up borrowing costs for businesses and consumers, creating a headwind for future economic growth. Are markets taking notice?

Until recently, the term premium was near historic lows, supported by subdued inflation, strong foreign demand for Treasuries, and the Fed's balance sheet expansion. But that dynamic is changing. Recent estimates put the 10-year term premium around 80- basis points (bps), up from near zero in mid-2024. If it merely reverts to historical norms, another 100–200 bps increase is possible – raising borrowing costs even without additional Fed rate hikes. A steeper curve may benefit banks, but if higher rates crowd out private-sector investment, the growth outlook dims. We may not be there yet, but Yellen's warning deserves attention – not just for fiscal sustainability, but for preserving the Fed's independence.



Sources: U.S. Bank Economics, Bloomberg, New York Federal Reserve, Cleveland Federal Reserve

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Inflation takes the spotlight

The data fog from the recent government shutdown is still clouding the picture, and inflation is where distortions are most evident. November's Consumer Price Index (CPI) print was artificially low due to a mix of missing price quotes in some cities, quirks in how housing costs were imputed, and the timing of price collection – much of it occurring late in the month when holiday discounts were prevalent.

December's CPI report (Tuesday, 7:30 a.m. CT) should unwind some of these effects, though the process will stretch into the spring – assuming another shutdown doesn't derail data collection again. We expect headline CPI to rise 0.3% month-over-month (MoM) and core CPI (excluding food and energy) to climb 0.4% MoM, a pace that would keep the Fed cautious on rate cuts.

Producer prices will also be in focus, though the **November PPI (Producer Price Index)** release (Wednesday, 7:30 a.m. CT) is more backward-looking. We anticipate a softer 0.2% MoM headline and 0.1% MoM core reading, consistent with easing pipeline pressures.

Finally, **Retail Sales** (Wednesday, 7:30 a.m. CT) will offer a clearer read on consumer momentum. November's report should show a healthy 0.4% MoM headline gain, with the control group up 0.3% MoM – a signal that consumption held firm into year-end. A modest rebound in auto sales, following October's sharp pullback tied to the EV tax credit expiration, will likely boost the headline number.

Shutdown-related distortions mean these reports won't fully clarify the inflation picture, but they're still central to the Fed's next steps. CPI will show whether prices pressures are easing despite data quirks, and retail sales will provide a read on consumer strength as businesses and markets look for signs that disinflation – and the soft-landing story – are still intact.

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 - January 12 through January 16

Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
1/13/2026	5 a.m.	NFIB Small business optimism index	Dec			99.0
	7:30 a.m.	CPI (MoM)	Dec	0.3	0.3	0.3
		CPI (YoY)	Dec	2.7	2.7	2.7
		CPI (ex-food & energy) (MoM)	Dec	0.4	0.3	0.2
		CPI (ex-food & energy) (YoY)	Dec	2.8	2.7	2.6
	9 a.m.	New home sales (000)	Oct	720.0	713.5	800.0
	1 p.m.	US budget deficit ($ bil.)	Dec			-173.3
1/14/2026	7:30 a.m.	PPI (MoM)	Nov	0.2	0.3	0.3
		PPI (YoY)	Nov	2.6	2.6	2.7
		PPI (ex-food & energy) (MoM)	Nov	0.1	0.2	0.1
		PPI (ex-food & energy) (YoY)	Nov	2.5		2.6
		Retail sales (MoM)	Nov	0.4	0.4	0.0
		Retail sales ex-auto (MoM)	Nov	0.4	0.4	0.4
		Retail sales control group (MoM)	Nov	0.3	0.4	0.8
		Current account balance	3Q			-251.3
	9 a.m.	Existing home sales (mln)	Dec	4.2	4.2	4.1
		Business inventories (MoM)	Oct	0.3		0.2
1/15/2025	7:30 a.m.	Initial Jobless Claims	10-Jan	215.0		208.0
		Import prices (MoM)	Nov	-0.2	-0.2	0.0
		Empire State manufacturing	Jan	1.0	1.0	-3.9
		Philly Fed manufacturing	Jan	-3.0	-2.9	-8.8
	3 p.m.	TIC flows ($ bil.)	Nov			-37.3
1/16/2026	8:15 a.m.	Industrial production (MoM)	Dec	0.2	0.2	0.2
	9 a.m.	NAHB housing index	Jan			39.0

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 1/9/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

January 12, 11:30 a.m.: Bostic (Atlanta Fed/Non-Voter)
January 12, 11:45 a.m.: Barkin (Richmond Fed/Non-Voter)
January 12, 5 p.m.: Williams (New York Fed/Voter)
January 13, 9 a.m.: Musalem (St. Louis Fed/Voter)

Disclosures

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