



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | January 30, 2026

THE WEEK'S ECONOMY AT A GLANCE

Steady hands, shakier sentiment

This week's economic landscape captured the cross-currents shaping the early-2026 outlook: a dovish-but-patient Fed, a consumer sentiment backdrop marked by rising job worries and mounting affordability strain, and a mixed set of goods-sector signals that left Q4 growth still solid but cooler at the margin.

At its January meeting, the Fed held rates steady and struck a more confident tone on both sides of the mandate, even as two dissents highlighted internal debate around the timing of further easing. Meanwhile, the Conference Board's consumer confidence index dropped to its lowest level in over a decade, with households increasingly reporting that jobs are harder to find and essential costs remain uncomfortably high – signs that filter into our spending expectations for the year ahead. And in the hard data, durable goods orders surprised to the upside while the trade deficit widened sharply, a combination that trimmed GDP tracking estimates but still points to a firm finish for Q4 activity.

Layered onto this is a shifting policy backdrop, as the administration's nomination of Kevin Warsh to lead the Fed adds a new dimension to the medium-term rate debate. Together, these developments paint a picture of an economy still expanding but confronting clearer late cycle pressures as 2026 gets underway.

What this means for business: *For businesses, the message is clear: demand is still holding up, but rising job worries and affordability pressures mean firms should prepare for more cautious consumers and a slower pace of growth as the year unfolds.*

Quote of the week

The Fed may be comfortable waiting for clearer disinflation, but consumers are already telling us something: job security feels less certain and budgets feel tighter – a tension that looks to define the contours of the economy in 2026.

Beth Ann Bovino, Chief Economist,
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ECONOMIC DATA OF THE WEEK

3.1

The Conference Board's Labor Market Differential (the share of consumers saying jobs are "plentiful" minus those saying they are "hard to get") fell to 3.1 in January – a post-pandemic low. The decline reflects a notable rise in "hard to get" responses, a gauge that has historically tracked closely with the unemployment rate and often precedes periods of labor market cooling. With job security concerns edging higher, we see the risk profile around unemployment tilting upward. And while not a standalone alarm bell, a differential this low signals growing household caution, reinforcing our expectation that spending momentum will moderate as 2026 unfolds.

ECONOMIC REPORT OF THE WEEK

The Warsh nomination

President Trump announced on Friday that he will nominate former Federal Reserve governor Kevin Warsh to serve as the central bank's next Chair, replacing Jerome Powell when his term ends in May. Warsh, who served on the Fed's Board of Governors from 2006 to 2011 and has since held academic and private sector roles, has been praised by the president as a highly respected monetary policymaker. The decision follows months of tension between Trump and Powell over interest rate policy, as well as broader political scrutiny of the Fed's independence. If confirmed by the Senate, Warsh is expected to play a decisive role in shaping U.S. monetary policy amid ongoing debates about inflation, interest rate cuts, and the Fed's credibility. Given Warsh's prior emphasis on inflation risks and his critiques of recent Fed strategy, his potential leadership introduces an added dimension for markets already recalibrating around the Fed's next moves, subtly reshaping expectations about the medium-term policy trajectory.

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ECONOMIC TRENDS: MONETARY POLICY

January FOMC: A dovish hold with clearer guardrails

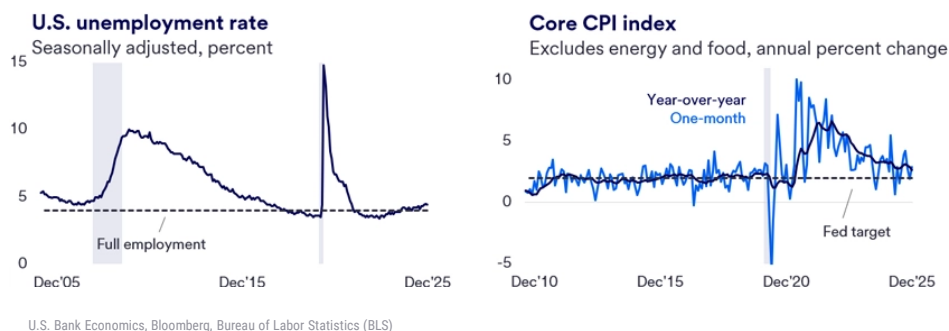
The Fed opened 2026 by holding the funds rate steady – at a range of 3.50% to 3.75% – in a 10–2 vote, pairing a firmer read on activity with a more balanced view of labor market risks. The statement upgraded growth to “expanding at a solid pace,” noted that unemployment has “shown some signs of stabilization,” and maintained that inflation remains “somewhat elevated.” Importantly, however, officials removed the line suggesting rising downside risks to employment – indicating that, for now at least, risks around the Fed’s dual mandate appear more symmetric than late last year. Governor Waller, previously a potential Chair contender, and Governor Miran, who has served in an advisory capacity to the White House, dissented in favor of a 25bp cut, but Chair Powell emphasized broad support for staying on hold.

Powell’s post-meeting press conference framed the decision as a data-dependent pause following last year’s 75bp of ‘insurance’ easing, with policy now nearer the plausible range of neutral and, at most, modestly restrictive. He described the economy as entering 2026 on a “firm footing,” supported by resilient consumption and ongoing business investment, even as housing remains weak. Both upside inflation risks and downside employment risks, he noted, have diminished, reinforcing the case for patience. Forward guidance remained intentionally limited – meeting-by-meeting and without a preset path – but the tone and vote configuration would seem to imply a higher bar for early spring adjustments.

The inflation discussion was nuanced. Officials continued to frame the recent firmness as goods-heavy and tariff-driven, alongside ongoing disinflation in services. Powell referenced estimates consistent with core PCE near 3% y/y thru December. In our view, that mix supports patience.

If tariff effects fade as expected and services disinflation grinds on, the Fed can let prior easing work through without adding fuel. Conversely, should inflation remain stalled materially above target, the Committee has left itself room to extend the pause.

On labor, Powell acknowledged low payroll gains and stabilizing unemployment but cautioned against overinterpreting noisy data after the late-2025 disruptions. He underscored that both labor demand and supply have cooled, complicating real-time inference about maximum employment. The Committee’s deletion of the “rising downside risks to employment” clause is consistent with that message – acknowledging less urgency to insure against labor weakness without declaring the coast is clear. In short, the Fed sees enough stability to wait for confirmation, but not enough to declare victory.



One additional thread was productivity. Powell again linked stronger activity to AI-related investment and the data center build-out, while showing appropriate humility about its persistence. Stronger productivity gives the Fed more room to stay patient – allowing above-trend growth without jeopardizing inflation – but it does not, on its own, argue for bringing rate cuts forward. Finally, Powell defended Fed independence and explained his attendance at Governor Cook’s Supreme Court hearing as appropriate and precedented – relevant for institutional credibility, though not for near-term policy.

Bottom line: This was a dovish hold with clearer guardrails. The Fed is comfortable staying on the sidelines while waiting for more definitive disinflation. Absent a sharp labor market deterioration,³ we continue to see mid-year as the most plausible timing for the

ECONOMIC TRENDS: MONETARY POLICY

January FOMC: A dovish hold with clearer guardrails *continued*

Bottom line: This was a dovish hold with clearer guardrails.

The Fed is comfortable staying on the sidelines while waiting for more definitive disinflation. Absent a sharp labor market deterioration, we continue to see mid-year as the most plausible timing for the next policy step. Until then, the administration's nomination of former governor Kevin Warsh – who has previously emphasized inflation risks and offered pointed critiques of recent Fed policy – adds a modest layer of uncertainty around the longer run rate trajectory, even as the current Committee signals patience.

ECONOMIC TRENDS: LABOR LANDSCAPE

The mood turns: Jobs jitters and wallet woes

Consumer confidence deteriorated sharply in January, with the Conference Board's index falling to 84.5, its lowest level since 2014. The decline was broad-based, reflecting deepening worries about job availability and mounting strain on household finances. More respondents indicated that jobs are becoming harder to find and write-in responses increasingly pointed to rising day-to-day cost pressures – an evolution consistent with our view that perceptions around labor stability and affordability are catching up to underlying realities. Taken together, these shifts signal a late-cycle environment in which households are becoming more defensive, even as top-line economic activity has remained firm.

The deterioration in labor sentiment was especially notable. The share of consumers saying jobs are “plentiful” declined, while those reporting jobs are “hard to get” rose, pushing the Labor Market Differential down to 3.1, its weakest level since early 2021.

We focus on this measure because its turning points have historically preceded periods of softer hiring – a pattern that appears to have reemerged. Although unemployment remains relatively low, rising anxiety about job security suggests consumers are beginning to track the cooling in job opening and payroll trends. In past cycles, similar shifts have marked the early stages of greater precautionary behavior, as households gradually become more sensitive to employment risk even before spending shows clear signs of slowing.



Affordability concerns are also amplifying this caution. The Conference Board noted that references to inflation and cost pressures remained widespread across write-in responses, underscoring that the price level – not just the pace of inflation – is a binding constraint for many families. Even as inflation moderates, cumulative increases in prices for essentials – including groceries, housing, and childcare – have outpaced wage gains for a broad swath of households, tightening budgets and thinning remaining savings cushions. With less flexibility to absorb new shocks, consumers look to be increasingly viewing the economy through an affordability lens – one reason we expect consumer spending and GDP growth to moderate over 2026, despite a strong finish to last year.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Planes up, trade down

The latest Census releases offered a mixed read on the goods-producing side of the economy. Durable goods saw a strong (+5.3% m/m) November performance, led by a surge in non-defense aircraft bookings, with more measured but steady gains across underlying core categories. Rising demand for machinery and tech-related equipment – bolstered in part by AI-driven investment – points to a firmer finish for business spending heading into year-end. In contrast, November's sharp widening in the goods and services deficit (to \$56.8 billion) reflected the unwinding of October's temporary export boost and renewed strength in key import categories. Together, the signals point in different directions: firm equipment demand on one hand, softer net exports on the other.



For GDP tracking, these cross-currents likely temper – but do not derail – expectations for a solid Q4. Firmer core capital goods shipments support another sequential gain in equipment spending, while the wider deficit pulls growth estimates lower. The Atlanta Fed's GDPNow model reflected this balance, lowering its Q4 real GDP estimate to 4.2% annualized following incorporation of the latest Census data, down from 5.4% previously. On net, the reports still imply a robust but cooler Q4 outcome, with resilient domestic demand partially offset by trade-related volatility as the economy transitions into early 2026.

Important disclosures provided on last page

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Labor market in focus as JOLTS, ADP, claims and payrolls line up

The first week of February brings a dense run of labor market data that will help clarify whether the cooling trend evident through late 2025 is carrying into the new year. Tuesday's December **JOLTS** report opens the slate. We expect job openings to remain mostly flat, consistent with still-sluggish labor demand. Chair Powell noted in last week's press conference that early signs of stabilization are emerging, and this release will help test that view. Quits should remain subdued, and separations broadly steady – indicating firms are continuing to hold on to workers even as hiring appetite softens.

On Wednesday, the January **ADP** report provides an early read on private sector hiring. We anticipate another modest gain. And while ADP often diverges from the official payroll numbers, its directional signal will be important, particularly after questions surfaced around whether seasonal adjustments exaggerated December's reported weakness.

Thursday's **Jobless Claims** should stay low by historical standards, though early-year week-to-week volatility is common. We will be watching the four-week moving average for any upward drift that might hint at further softening beneath the surface.

The week culminates Friday with the January **Employment Report** – the most consequential release. In addition to providing the first clean read of 2026 labor conditions, January's report will also incorporate the 2025 annual benchmark revision to the establishment survey. While those adjustments mainly affect employment levels through last March, they may modestly reshape last year's hiring profile and could slightly alter seasonal patterns going forward.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Labor market in focus as JOLTS, ADP, claims and payrolls line up *continued*

Against that backdrop, we expect payroll gains to remain muted (rising by 55,000), wage growth to hover near its recent pace, and the unemployment rate to hold roughly unchanged at 4.4% with upside risks in January. These readings – together with any benchmark-related adjustments – will play an important role in shaping how the Fed evaluates the balance between its price stability and maximum employment objectives.

Finally, several **Fed speakers** will deliver their first public remarks since the January FOMC decision to hold rates steady, offering added insight into how policymakers interpret the evolving data. Markets will also watch for any commentary related to the administration's nomination of Kevin Warsh to be the next Fed Chair, a significant step in the leadership transition expected later this year.

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 - February 2 through February 6						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
2/2/2026	8:45 a.m.	S&P Global US Manufacturing PMI	Jan F			51.9
	9 a.m.	ISM manufacturing	Jan	48.3	48.3	47.9
2/3/2026	9 a.m.	JOLTS Job Openings (000)	Dec	7150	7175	7146
2/4/2026	7:15 a.m.	ADP employment change (000)	Jan	45	45	41
	8:45 a.m.	S&P Global US Services PMI	Jan F			52.5
		S&P Global US Composite PMI	Jan F			52.8
	9 a.m.	ISM Services Index	Jan	53.5	53.5	53.8
2/5/2026	7:30 a.m.	Initial Jobless Claims	31-Jan	215	210	209
2/6/2026	7:30 a.m.	Employment report (000)	Jan	55	65	50
		Unemployment rate (%)	Jan	4.4	4.4	4.4
	9 a.m.	U. Mich. Consumer sentiment	Feb P	55.0	55.8	56.4
	2 p.m.	Consumer Credit	Dec	4.2		4.2

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 1/30/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

February 2, 11:30 a.m.: Bostic (Atlanta Fed/Non-Voter)

February 3, 7 a.m.: Barkin (Richmond Fed/Non-Voter)

February 3, 8:40 a.m.: Bowman (Board of Governors/Voter)

February 5, 9:50 a.m.: Bostic (Atlanta Fed/Non-Voter)

Disclosures

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