WEEKLY ECONOMIC OUTLOOK

# Data-driven insights from the U.S. Bank Economics Research Group | March 20, 2026

THE WEEK'S ECONOMY AT A GLANCE

## Steady growth, sticky prices, rising risks

Last week's data painted a picture of firmer underlying momentum in the U.S. economy. It now collides with a more challenging inflation and heightened geopolitical risk in March. Manufacturing activity continues to gain traction, with industrial production and output posting a second consecutive monthly increase in February and growth broadening across capital-intensive categories tied to investment and technology. Regional surveys and early indicators for March suggest the sector is stabilizing, if not modestly expanding, after a prolonged soft patch.

At the same time, inflation risks are reemerging. Wholesale price pressures reaccelerated meaningfully in February, signaling renewed pipeline stress before the latest surge in oil prices stemming from the war in the Middle East. This added risk related to potential oil and supply chain shocks has led us to increase our qualitative recession probability over the next 12 months to 35% (from 30% last month).

Core inflation dynamics already were sticky, particularly across goods and key service categories, complicating the path back to the Fed's target. Against this backdrop, last week's FOMC delivered a hawkish hold, with officials expressing heightened concerns around inflation persistence and geopolitical risks. The combination of firmer growth, rising input costs, and policy patience sets the stage for prolonged uncertainty as businesses and policymakers await clearer evidence that disinflation has resumed.

### Quote of the week

*Recent economic data continue to support our expectation for a soft landing. But with the war in the Middle East, that feels like old news. Potential oil and supply chain shocks have led us to increase our recession probability to 35%, a one-third chance of recession over the next 12 months.*

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

***What this means for business:** For businesses, this environment favors caution over complacency. Improving manufacturing conditions and solid demand offer opportunities. But higher energy costs to customers and renewed cost pressures of production increase the risk of margin compression. With interest rates likely to stay higher for longer, balance sheet management and cost control remain critical as the economy navigates a narrow path between resilience and renewed inflation stress.*

ECONOMIC DATA OF THE WEEK

# $15

Last Thursday, Brent crude oil was trading at a $15 premium over West Texas Intermediate (WTI), midday – an increase of $10 since the onset of the conflict. Brent prices spiked on Wednesday evening into Thursday morning as market participants digested the news of Israeli and Iranian strikes on oil and gas production facilities. Because Brent crude is more directly impacted by these strikes and the continued closure of the Strait of Hormuz, its price has responded more strongly than WTI. Just prior to the conflict, Brent was trading at only a $5 premium vs. WTI.

ECONOMIC REPORT OF THE WEEK

## Industrial production

Industrial production (IP) continues to firm, reinforcing signs that U.S. manufacturing activity has gained traction in recent months. Total IP rose 0.2% month-over-month (MoM) in February, building on a strong January increase. Manufacturing output also advanced 0.2% MoM, marking a second consecutive monthly gain and lifting production about 1.3% above year-ago levels. Recent strength has been broad-based, with notable contributions from computers and electronic products – likely reflecting AI-related investment – as well as fabricated metals, machinery and chemicals.

Looking ahead, the outlook has become more uncertain. The recent energy shock – with oil prices now consistently above $100 per barrel over the past week – raises input costs for manufacturers and risks squeezing margins and demand. Elevated energy prices could also complicate what had been an improving productivity story and temper the durability of the manufacturing upswing if they persist.

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ECONOMIC TRENDS: MONETARY POLICY

# Hawkish hold amid rising uncertainty: March FOMC stays patient

**The March Federal Open Market Committee (FOMC) meeting delivered a widely expected hold, leaving the federal funds rate unchanged at 3.50-3.75%, but with a distinctly hawkish undertone.** Only one dissent was recorded, with Governor Miran favoring a 25-basis point (bp) cut – a narrower split than at the previous meeting and indicative of a Committee that remains broadly aligned around a patient policy stance. The post-meeting statement was largely unchanged in its assessment of economic conditions, but it notably introduced new language highlighting heightened uncertainty around "the implications of developments in the Middle East for the U.S. economy," reinforcing the Fed's sensitivity to geopolitical risks at a time when inflation progress has been uneven.

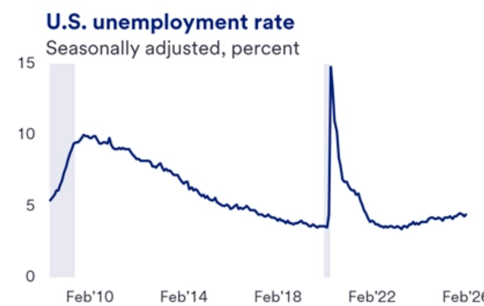
**The updated Summary of Economic Projections (SEP) reinforced this cautious stance.** Median real GDP growth forecasts were revised modestly higher across the medium term, with projections for 2026, 2027 and 2028 all nudged up, alongside an increase in the longer-run growth estimate to 2.0%. The unemployment outlook was little changed, signaling continued confidence in labor market resilience. In contrast, the inflation outlook deteriorated modestly: core Personal Consumption Expenditures (PCE) inflation projections were revised higher for both 2026 and 2027, suggesting a slower return to the Fed's 2% target than previously anticipated. While the median path for the fed funds rate beyond this year was unchanged, the longer-run policy rate edged higher, and Chair Powell emphasized that there was "meaningful movement" among participants toward fewer rate cuts over time, even as the central tendency was preserved.

**Chair Powell's press conference leaned more hawkish than in recent appearances.** He described economic growth as "solid" and the labor market as "little changed," reinforcing the view that policy does not face near-term pressure from deteriorating activity.

On inflation, Powell acknowledged that geopolitical developments – particularly related to Iran – likely influenced the upward revision in headline inflation forecasts, but he stressed that the higher core inflation path primarily reflects renewed firmness in goods prices tied to tariffs. He repeatedly emphasized that sustained progress on goods inflation is "really important" and remains the key condition the Committee is watching, while conceding that the timing of renewed disinflation is highly uncertain.

**With April potentially Powell's last meeting as Chair, eyes turn to Kevin Warsh, who recently indicated a dovish lean.** While this time may be different, the Chair of the FOMC has always voted with the consensus. And the new Fed Chair, Kevin Warsh, will likely continue the trend.

**Bottom line: This was a hawkish hold that reflects growing confidence in economic momentum but persistent concern about inflation dynamics and external risks.** Modestly stronger growth, a stable labor market, and less favorable inflation projections leave the Fed well-positioned to remain patient. With uncertainty elevated – both on the inflation front and geopolitically – the Committee appears content to wait for clearer evidence that disinflation has resumed before adjusting policy further.


U.S. Bank Economics, Bloomberg

ECONOMIC TRENDS: PRODUCER AND CONSUMER PRICES

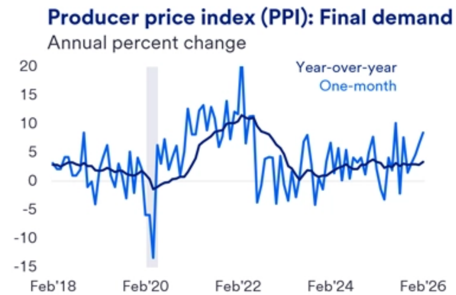
## Pipeline pressure: Wholesale prices heat back up

**Wholesale inflation reaccelerated in February, signaling renewed cost pressures at the producer level even before the recent run-up in energy prices.** The Producer Price Index (PPI) for final demand rose 0.7% MoM, following a firm 0.5% gain in January. That lifted the year-over-year pace to 3.4%, the fastest in roughly a year. Core PPI (excluding food, energy, and trade) also came in hot at 0.5% MoM (3.5% YoY), underscoring that price pressures were not confined to volatile categories. Taken together, the data point to a wholesale inflation backdrop that remains inconsistent with a smooth return to the Fed's 2% target.

**Beneath the headline, February's increase was broad-based across both goods and services.** Final demand goods prices jumped 1.1% MoM (2.5% YoY), led by sharp increases in food and energy, while services prices rose 0.5% MoM (3.8% YoY), extending a string of firm monthly prints. Importantly, several service categories that tend to matter for downstream inflation – such as transportation, healthcare-related services and financial services – remained elevated. This mix helps explain why we watch PPI closely. It provides an early read on whether higher input and service costs faced by businesses are likely to be absorbed in margins or eventually passed through to consumers.

**Looking ahead to the Fed's preferred inflation gauge, the PPI details imply February core PCE inflation of roughly 0.4% MoM.** That would leave the three-month annualized pace at about 4.6%, the fastest in nearly two years, with the year-over-year rate expected to moderate to 3.0% (from 3.1%) through February.

While some PPI components feeding into PCE were modestly softer than feared, the overall message remains one of sticky underlying inflation. Against this backdrop, the recent surge in oil prices tied to the Iran conflict poses a clear upside risk, raising the odds that energy-related cost pressures begin to filter more forcefully into goods, transportation and services prices in coming months – reinforcing the Fed's case for patience on rate cuts.





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

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

## Early signals: Manufacturing stabilizes, housing stirs

**Two early indicators for March point to a slightly expanding manufacturing sector.** The Empire State Manufacturing Survey, a survey of roughly 200 manufacturing executives in New York state, came in close to zero, signaling stable business conditions. The Philadelphia Fed Business Outlook Survey, a survey of roughly 125 manufacturing CEOs covering portions of Pennsylvania, New Jersey and Delaware, ran hotter than expected and signaled expansion.

**In the housing market, the Mortgage Bankers Association reported that during the week of March 13, refinance applications dropped by 18.5%.** This is likely due to the increase in mortgage rates over the first half of the month. According to Freddie Mac,

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

## Early signals: Manufacturing stabilizes, housing stirs *continued*

the 30-year mortgage rate has risen in tandem with the 10-year Treasury rate so far in March, by about 25bps to 6.22%. In February, seasonally adjusted pending home sales rebounded off of their historic January low, growing at 1.8% MoM. And in January, new home sales fell sharply to 587,000 (seasonally adjusted annual rate), a surprising drop that was likely driven by inclement weather across most of the country, and that we expect to mostly reverse in February.

**NY empire state manufacturing survey**
Index, >0 = expansionary


**U.S. 30-year fixed mortgage rate**
Percent, Mortgage Bankers Association


U.S. Bank Economics, Bloomberg

ECONOMIC TRENDS: THE WEK AHEAD

## Data and reports we're watching this week: Data take a breather as Fed officials exit blackout

The economic data calendar is sparse this week, shifting attention toward a limited set of timely indicators and the return of Federal Reserve officials to the public stage following last week's FOMC meeting. With few high profile releases scheduled, markets will focus on early signals from business surveys, labor market dynamics, and consumer sentiment, alongside post-meeting Fed commentary for insight into how policymakers are interpreting recent developments.

Tuesday brings the **S&P Global preliminary March PMIs**, which will offer the first snapshot of economic activity across manufacturing and services late in the first quarter. We expect little change for both indices, still remaining in expansionary territory, consistent with continued but moderating growth. After modest improvement earlier in the year, momentum may prove more subdued in March as heightened geopolitical uncertainty weighs on demand at the margin while higher production costs add to concerns. Manufacturing activity is likely to remain constrained by still-soft new orders and cautious capital spending, even as supply conditions continue to normalize. Overall, the PMIs should reinforce a picture of uneven but still-resilient growth.

On Thursday, **Initial Jobless Claims** for the week ending March 21 will provide a timely check on labor market conditions. We will be watching to see whether the recent downward drift in claims persists. Even a modest uptick would likely remain consistent with layoffs remaining contained, while a further decline would reinforce the view that labor demand – though cooling – remains relatively stable. We will focus on the four-week moving average for evidence of a sustained trend, as early-year seasonality and week-to-week noise continue to complicate interpretation of the weekly data.

Friday's final March **University of Michigan consumer sentiment** reading will follow a weaker preliminary report. The preliminary sentiment index fell to 55.5 in March from 56.6 in February, reflecting heightened concern over gasoline prices amid the conflict with Iran. The final reading could remain under pressure if elevated energy prices and geopolitical uncertainty continue to weigh on forward-looking views, particularly against the backdrop of a still-fragile labor market.

Finally, the week will feature the first round of **Federal Reserve speeches** following the March FOMC meeting, with scheduled remarks from Vice Chair Philip Jefferson (voter), San Francisco Fed President Mary Daly (non-voter), and Philadelphia Fed President Anna Paulson (voter), with additional appearances likely to be added.

ECONOMIC TRENDS: THE WEK AHEAD

## Data and reports we're watching this week: Data take a breather as Fed officials exit blackout *continued*

We will be listening closely for how individual policymakers assess the recent firmness in goods inflation, the inflationary implications of higher oil prices, and the evolving balance between inflation risks and labor market cooling. Commentary on how these factors influence the appropriate path of policy will be particularly important as markets digest Chair Powell's emphasis on patience and data dependence at last week's press conference.

### 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 - March 23 through March 27 | | | | | | |
|---|---|---|---|---|---|---|
| Date | Time (CT) | Release | For | USB Econ | Consensus | Previous |
| 3/23/2026 | 9 a.m. | **Construction spending (MoM)** | Jan | **0.1** | 0.1 | 0.3 |
| 3/24/2026 | 7:30 a.m. | **Nonfarm productivity (QoQ)** | 4Q F | **2.4** | 2.4 | 2.8 |
| | | **Unit labor costs (QoQ)** | 4Q F | **3.4** | 3.4 | 2.8 |
| | 8:45 a.m. | **S&P Global US Services PMI** | Mar P | **51.9** | | 51.7 |
| | | **S&P Global US Composite PMI** | Mar P | **52.0** | | 51.9 |
| | | **S&P Global US Manufacturing PMI** | Mar P | **51.8** | | 51.6 |
| 3/25/2026 | 7:30 a.m. | **Import prices (MoM)** | Feb | | | 0.2 |
| | | **Current account balance** | 4Q | | | -226.4 |
| 3/26/2026 | 7:30 a.m. | **Initial Jobless Claims** | 21-Mar | **213** | | 205 |
| 3/27/2026 | 9 a.m. | **U. Mich. Consumer sentiment** | Mar F | **55.3** | | 55.5 |

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 3/20/2026.

## Federal Open Market Committee (FOMC) Speaker Calendar

**March 26, 6 p.m.:** Jefferson (Board of Governors/Voter)
**March 27, 10:30 a.m.:** Daly (San Francisco Fed/Non-Voter)
**March 27, 10:40 a.m.:** Paulson (Philadelphia Fed/Voter)

**Disclosures**

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