



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | May 29, 2026

THE WEEK'S ECONOMY AT A GLANCE

Growth meets gravity

The latest flow of data suggests an economy that remains resilient at the headline level but is becoming increasingly uneven beneath the surface. Growth has moderated following a softer start to the year, the consumer is still spending but showing signs of strain as real incomes compress, and business investment appears solid but more volatile month-to-month. At the same time, inflation is cooling only gradually – with underlying trends still running uncomfortably firm – while confidence remains subdued amid persistent cost pressures. Together, these dynamics point to a ‘resilient but squeezed’ backdrop. Activity is holding up, but the foundations of that resilience are becoming more fragile, leaving the Fed firmly in wait-and-see mode as risks remain tilted toward stickier inflation and slower momentum ahead.

What this means for business: *For businesses, the backdrop remains one of slowing but still positive demand alongside persistently elevated costs – requiring a more selective, margin-focused approach to growth.*



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Quote of the week

The Fed can't ignore how high prices have eroded purchasing power – the remedy is tighter conditions. While hikes remain unlikely, the bar for cuts is high absent a meaningful slowdown.

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



ECONOMIC DATA OF THE WEEK

3.3%

Core Personal Consumption Expenditures (PCE) inflation rose 3.3% year-over-year (YoY) through April, remaining well above the Fed's 2% target and underscoring uneven progress on disinflation. While monthly gains were relatively contained (+0.2% month-over-month, or MoM), recent trends suggest underlying inflation is still running closer to the high-3% range on a three- and six-month annualized basis – pointing to persistent price pressures beneath the surface. This reinforces a 'resilient but squeezed' dynamic. Inflation is not accelerating meaningfully, but neither is it cooling decisively – leaving policy in a holding pattern, with risks still tilted toward persistence rather than rapid disinflation.

ECONOMIC REPORT OF THE WEEK

Personal Income and Outlays

April's Personal Income and Outlays report pointed to a consumer sector that remains resilient on the surface but is facing increasing strain beneath as households dip into savings to cover higher costs. Nominal spending increased 0.5% MoM (+5.9% YoY), while real spending rose a more moderate 0.1% MoM (+2.1% YoY) – highlighting the continued drag from prices. At the same time, income growth softened, with real disposable income declining 0.5% on the month (-1.1% YoY), marking a notable pullback in household purchasing power. The saving rate also fell to a near four-year low of 2.6%, as consumers increasingly rely on a shrinking financial cushion to sustain spending.

This combination points to a gradual erosion in the underlying support for consumption, even as headline activity remains intact. While some of the income softness appears tied to temporary factors, the broader trend points to slowing real income growth – leaving households increasingly reliant on savings to sustain spending.

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This helps explain why spending activity has remained relatively firm despite weakening purchasing power but also highlights a more fragile underpinning to growth as balance sheet support becomes more limited.

Where does this leave the Fed as it balances on a tightening rope? Policymakers may begin to feel some softening in the labor market, but even a weak May employment report – potentially at or below zero job growth – is unlikely to shift the current stance based on a single data point.

ECONOMIC REPORT OF THE WEEK

Personal Income and Outlays *continued*

At the same time, the Fed cannot ignore how significantly elevated prices have eroded household purchasing power, reinforcing the case for keeping policy restrictive. While a rate hike remains unlikely given the still-limited pass-through from higher energy prices into core inflation, the bar for easing appears increasingly high. Unless economic conditions deteriorate more materially, rate cuts may remain off the table for the foreseeable future.

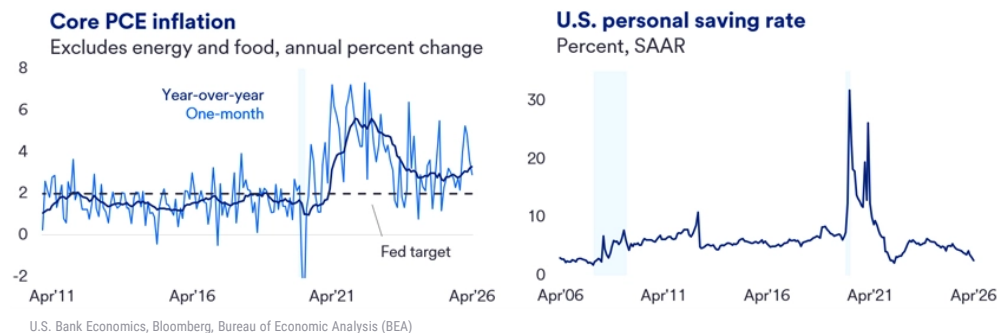
ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Growth: Softer start to the year, with consumption doing more of the work

The second estimate of Q1 GDP showed growth revised down by 0.4% to a 1.6% annualized pace, pointing to a softer start to the year than initially reported. The composition was weaker beneath the surface, reflecting downward revisions to both inventory investment and consumer spending – particularly in services – suggesting that underlying momentum was more modest than the headline initially implied. Even so, final domestic demand remained broadly constructive, indicating that the expansion continues, albeit at a more measured pace.

Overall, the growth data suggest the economy is not contracting but is gradually losing momentum at the margin. Aggregate activity remains supported by consumer spending and pockets of business investment, but the mix is becoming less favorable. Moreover, with income growth softening and financial buffers thinning, the sustainability of consumption-led growth is likely to come into greater focus in the quarters ahead – particularly if cost pressures persist and begin to weigh more directly on demand.

Important disclosures provided on last page



ECONOMIC TRENDS: INFLATION OUTLOOK

Consumer confidence: Softer at the margin as inflation concerns reintensify

Consumer confidence continues to signal a cautious – though not collapsing – household sector, with sentiment softening modestly as inflation concerns reintensify. The Conference Board's Consumer Confidence Index edged down to 93.1 in May (from 93.8 in April), remaining below its long-run average and extending a broader period of subdued sentiment. The pullback was driven by weaker assessments of current conditions, with consumers reporting softer views of both business and labor market conditions. By contrast, expectations for the next six months improved modestly but remain below the key 80 threshold historically associated with recession risk. On balance, the report points to a consumer backdrop that is stable but cautious, with little evidence of a meaningful reacceleration in sentiment.

Beneath the surface, inflation – rather than employment – continues to weigh most heavily on confidence. Survey responses increasingly referenced prices, oil and broader geopolitical developments, underscoring the salience of higher gasoline and energy costs. Labor market perceptions softened only modestly, with the labor market differential edging lower but remaining in positive territory – consistent with a cooling, but not deteriorating, jobs environment.

ECONOMIC TRENDS: INFLATION OUTLOOK

Consumer confidence: Softer at the margin as inflation concerns reintensify *continued*

At the same time, income expectations weakened and near-term inflation expectations remained elevated, pointing to emerging pressure on real purchasing power. For businesses, these dynamics suggest consumers are becoming more sensitive to cost pressures even as underlying labor market conditions remain steady.



Overall, May's report reinforces a narrative of uneven but generally subdued sentiment. While forward-looking expectations showed tentative stabilization, the decline in current conditions and continued erosion in income perceptions suggest a consumer growing more cautious at the margin. Importantly, this does not yet signal a pullback in activity – confidence has proven to be a weak predictor of spending in recent years – but it does point to a more selective and value-driven consumption pattern. If elevated cost pressures persist alongside gradual labor market cooling, the risk is that sentiment begins to translate more meaningfully into softer spending as the year progresses.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business and housing: Mixed signals beneath the surface

Rounding out this week's data, business investment and housing offered a mixed but telling snapshot of underlying momentum. Durable goods orders jumped sharply in April (+7.9% MoM), driven by a surge in transportation and aircraft bookings. Beneath the headline, however, momentum was softer, with core capital goods orders (nondefense excluding aircraft) falling 1.1% after a strong prior month – pointing to some payback and increased volatility rather than a sustained reacceleration. Orders excluding transportation remained positive and core shipments rose modestly, indicating capex is still advancing – but at a slower and more uneven pace. While investment appears supported by tech- and AI-related demand, recent swings suggest a less uniform trend, with price effects further clouding the signal on real activity.

Meanwhile, the housing sector continues to face clearer headwinds. New home sales fell 6.2% to a 622,000 annualized pace in April and remain down double-digits year-over-year, underscoring weak demand. Mortgage rates in the mid-6% range are weighing on affordability, even as price growth cools modestly. At the same time, inventories remain elevated, with months' supply near cycle highs – highlighting a persistent mismatch between soft demand and available supply. Higher financing costs, rising construction inputs and ongoing uncertainty are contributing to a subdued spring selling season, reinforcing housing as one of the clearest transmission channels of tighter financial conditions.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: May jobs report in focus as labor market steadies

The data calendar this week centers squarely on the labor market, with a sequence of releases that should help clarify hiring trends, worker confidence, and underlying demand following a period of heightened volatility. April JOLTS data on Tuesday and the Fed's *Beige Book* on Wednesday will set the stage for Friday's May Employment Report, which we expect to show continued solid job gains alongside a stable unemployment rate – consistent with a labor market that is settling after a run of mixed and often noisy signals.

Tuesday's **Job Openings and Labor Turnover Survey (JOLTS)** will provide an updated read on labor demand. We look for job openings to edge higher to 6.88 million in April, up only modestly from 6.87 million. While the expected increase is small, it would reinforce the view that demand is stabilizing after earlier swings. At the same time, we expect the quits rate to hold at 2.0%, pointing to a workforce that remains engaged but less willing to churn than during the peak of labor market tightness. Taken together, the data would support a narrative of normalization rather than deterioration in labor market conditions.

The Fed's *Beige Book*, due Wednesday, will offer qualitative insight into economic conditions across districts and will be closely watched for confirmation of these trends. Recent reports have pointed to generally stable activity, with hiring described as measured and wage pressures easing gradually. Particular focus will be on commentary around labor availability, wage-setting behavior, and demand across services sectors, where much of the recent resilience has been concentrated. For policymakers, the *Beige Book* remains an important cross-check on how broadly labor market stabilization – and reemerging price pressures – are being felt across regions and industries.

Friday's **May Employment Report** will be the focal point of the week. We expect nonfarm payrolls to rise by 90,000 – following a 115,000 increase in April – and coming in slightly below consensus expectations. If realized, this would mark a third consecutive month of moderately firm job gains, suggesting underlying continuity in hiring rather than a simple rebound from February's weaker print. The unemployment rate is expected to hold steady at 4.3%, consistent with a labor market that is no longer softening.

Beneath the surface, we continue to look for strength in education and health services, which have accounted for a meaningful share of job gains in recent months and appear relatively insulated from cyclical headwinds. Wage growth and labor force participation will also be key to watch for further signs that supply and demand are moving into better balance.

Taken together, this week's releases should reinforce a narrative of a labor market that has become more stable after a stretch of uneven signals. Hiring has moderated but remains sufficiently firm to support income growth and consumer spending, while labor demand appears to be settling rather than deteriorating. For policymakers, this combination supports the current wait-and-see approach, with the focus remaining squarely on inflation dynamics.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: FOMC minutes in focus amid limited fresh data *continued*

Taken together, this week's releases are likely to reinforce a cautious but steady macro narrative. While hard data remain sparse, the FOMC minutes should highlight a more fragmented policy backdrop, with growing divergence around the balance of risks. At the same time, weak consumer sentiment and a constrained housing sector suggest that higher prices and tighter financial conditions continue to weigh on more interest-sensitive and confidence-driven segments of the economy, even as broader activity holds up.

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 - June 1 through June 5							
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous	
6/1/2026	8:45 a.m.	S&P Global US Manufacturing PMI	May F	55.3	55.3	55.3	
	9 a.m.	ISM manufacturing	May	53.2	53.2	52.7	
		Construction spending (MoM)	Apr	0.2	0.1	0.6	
6/2/2026	9 a.m.	JOLTS Job Openings (000)	Apr	6880	6890	6866	
6/3/2026	7:15 a.m.	ADP employment change (000)	May	110	120	109	
	8:45 a.m.	S&P Global US Services PMI	May F			50.9	
S&P Global US Composite PMI		May F			51.7		
Factory orders (MoM)		Apr	4.1	4.3	1.5		
ISM Services Index		May	53.7	53.7	53.6		
Durable goods orders (MoM)		Apr F			7.9		
Durable goods ex Transportation (MoM)		Apr F			1.1		
Capital goods orders nondefense ex. Aircraft		Apr F			-1.1		
1 p.m.		Fed Beige Book					
6/4/2026	7:30 a.m.	Nonfarm productivity (QoQ)	1Q F	0.7	0.7	0.8	
		Unit labor costs (QoQ)	1Q F	2.4	2.4	2.3	
		Initial Jobless Claims	30-May			215	
6/5/2026	7:30 a.m.	Employment report (000)	May	90	93	115	
		Unemployment rate (%)	May	4.3	4.3	4.3	
	2 p.m.	Consumer Credit	Apr	18.0	18.0	24.9	

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 5/29/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

June 2, 12:50 a.m.: Kashkari (Minneapolis Fed/Voter)

June 2, 7:30 a.m.: Hammack (Cleveland Fed/Voter)

June 3, 8 a.m.: Barr (Board of Governors/Voter)

June 3, 3 p.m.: Logan (Dallas Fed/Voter)

June 4, 12:10 p.m.: Daly (San Francisco/Non-Voter)

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