



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | June 5, 2026

THE WEEK'S ECONOMY AT A GLANCE

Feeling the squeeze

This week's data reinforced a familiar but increasingly uneasy mix: an economy that continues to expand, but one doing so under mounting cost pressures. Business activity firmed modestly, labor demand showed signs of stabilization, and payroll growth surprised to the upside – collectively pushing back against near-term slowdown concerns. At the same time, however, consumer strain is becoming more visible, hiring remains restrained, and input cost pressures are dominant particularly through energy and supply chains. The result is a macro backdrop that supports a 'higher-for-longer' rate environment, with markets beginning to price in renewed tightening risk – even as households face growing pressure on real incomes and purchasing power.

What this means for business: *For businesses, the takeaway is an environment of steady demand but persistent cost pressure – favoring cautious hiring, tighter margin management, and a continued focus on pricing discipline.*

Quote of the week

The challenge right now isn't growth – it's that it's happening alongside mounting pressure on households, where higher prices and higher rates are beginning to weigh more meaningfully.

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



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ECONOMIC DATA OF THE WEEK

1.7

Fed funds futures are now pricing in roughly 1.7x rate hikes by April 2027, underscoring a market that is increasingly leaning toward a ‘higher-for-longer’ policy path. The shift reflects a backdrop of resilient economic activity and persistent inflation pressures, which together are raising the bar for policy easing – and, at the margin, reopening the door to additional tightening if strength persists.

What makes this dynamic more consequential is the timing. Elevated rate expectations are coinciding with mounting pressure on household balance sheets, as higher prices continue to erode real purchasing power and income growth struggles to keep pace. In that sense, the risk is not just that rates stay high, but that they do so into an environment where consumers are already under strain – potentially amplifying the drag on spending and leaving the expansion more vulnerable to further shocks.

ECONOMIC REPORT OF THE WEEK

Fed Beige Book

The Fed’s latest Beige Book pulls our core narrative together: an economy still expanding, a stable labor market and reemerging cost pressures – but with underlying strain becoming more visible. Ten of twelve Districts reported modest expansion, though sentiment has grown more cautious amid elevated uncertainty and signs of softer demand. Consumer behavior remains bifurcated, with higher-income households holding up, while middle- and lower-income consumers show signs of fatigue – including greater reliance on credit and a shift toward essentials. And several Districts noted rising delinquencies across mortgage, consumer and agricultural loans.

Sectoral conditions remain uneven. Manufacturing was a relative bright spot, though gains were concentrated in defense and data center activity rather than broad-based demand – an imbalance that extends to capital spending, where AI-related investment appears insulated from cyclical slowing. Labor markets reflected an ongoing ‘low-hire, low-fire’ dynamic, with little net change in employment.

U.S. Bank Economics Research Group

Beth Ann Bovino, Chief Economist

Ana Luisa Araujo, Senior Economist

Matt Schoeppner, Senior Economist

Adam Check, Economist

Andrea Sorensen, Economist

. Hiring remained selective, mobility declined and wage growth was moderate and broadly in line with inflation, though businesses increasingly cited labor supply constraints tied to reduced availability of foreign-born workers.

Price pressures intensified, driven primarily by higher energy costs linked to the Middle East conflict, with spillovers into transportation, materials and food. As a result, non-labor input costs continued to outpace selling prices, adding to margin pressure. AI also emerged as a pervasive theme, reshaping labor demand and business behavior.

ECONOMIC REPORT OF THE WEEK

Fed Beige Book *continued*

Firms reported reduced hiring for entry-level roles as automation expands, while selectively adding higher-skill positions. In some cases, rising domestic costs and rapid AI adoption abroad are encouraging a shift of back-office functions to lower-cost global providers, with AI enhancing offshore productivity.

Overall, the Beige Book describes an economy that continues to expand but faces mounting headwinds – from a geopolitical cost shock and a more constrained consumer to a labor market increasingly shaped by automation. AI is no longer peripheral, it is becoming central to hiring, firm structure, and where work is performed.

ECONOMIC TRENDS: LABOR LANDSCAPE

May employment report: Firming at the margins, but still a story of stability

The May employment report delivered a firmer-than-expected read on labor market conditions, reinforcing the recent pattern of stability while pushing back modestly against near-term softening concerns. Nonfarm payrolls rose by 172,000, well above expectations, while prior months were revised meaningfully higher – leaving the three-month average a solid +188,000. Meanwhile, the unemployment rate held steady at 4.3%, and wage growth moderated to 3.4% year-over-year (YoY). Taken together, the report points to a labor market that remains intact – and somewhat firmer than previously thought – even as the broader narrative of cooling remains in place.



Beneath the headline, the signal is more incremental than transformative. Job gains were solid but concentrated, with hiring led by leisure and hospitality sectors alongside continued strength in health care and government employment. At the same time, broader hiring dynamics appear less robust, with evidence from other labor market indicators still pointing to subdued demand for labor. The household survey, for instance, was largely stable, with participation and employment measures little changed, suggesting that headline strength continues to coexist with a labor market that isn't necessarily accelerating in a broad-based way.

More importantly, the overall configuration of the labor market remains consistent with a 'low-hire, low-fire' environment. The unemployment rate continues to hold steady not because hiring is reaccelerating materially, but because layoffs remain limited and labor supply growth is restrained. Wage growth, meanwhile, continues to ease in a constructive direction, reinforcing the view that labor cost pressures are no longer a primary driver of inflation risk. In that sense, May's report looks less like a shift in trend and more like a modest firming within an already stable equilibrium.

From a policy perspective, the takeaway is supportive of continued patience, but with a subtle shift in risk. Firmer payroll growth and upward revisions reduce immediate downside concerns around the labor market, while moderating wage growth keeps the disinflation narrative intact.

ECONOMIC TRENDS: LABOR LANDSCAPE

May employment report: Firming at the margins, but still a story of stability *continued*

At the same time, the persistence of labor market resilience – particularly if job growth continues to run above ~50,000 breakeven – raises the bar for policy easing and begins to tilt the balance modestly toward upside policy risk (i.e., hikes). In short, the report reinforces a labor market that is holding together better than expected, albeit not one that is reaccelerating in a way that would fundamentally alter the broader outlook.

ECONOMIC TRENDS: LABOR LANDSCAPE

Vacancies stabilize, but churn is still low

The April Job Openings and Labor Turnover Survey (JOLTS) report offered a firmer read on labor demand, though the underlying message remains broadly unchanged. Job openings rose to a strong 7.6 million, the highest in two years. While the surprise jump would seem to corroborate other data showing some stabilization in labor demand, the increase appears uneven and concentrated in professional and business services. As such, it does little to alter the broader trajectory – one defined less by outright deterioration than by a gradual normalization from earlier-cycle highs.

Beneath the headline, labor market churn remains notably subdued, with hiring activity once again losing momentum. After improving in March, the hiring rate retraced toward recent lows, reinforcing the view that businesses remain hesitant to expand headcount. Measures of worker movement told a similar story: quits edged lower, signaling still-limited job-switching opportunities, while layoffs declined, underscoring employers' continued reluctance to reduce staffing outright.

Taken together, the data point to a labor market that remains unusually static, where firms are adjusting primarily by holding the line on hiring rather than actively shedding workers.



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

In sum, April's JOLTS report reinforces the view of a labor market that is stabilizing, but at a relatively low level of dynamism. Openings may no longer be drifting lower, but hiring remains constrained and overall churn shows little sign of reacceleration. This configuration suggests the labor market continues to lack forward momentum, which should help contain wage-inflation pressures but also keep the pace of job growth limited in the months ahead. For the Fed, the message is little changed. Conditions remain consistent with a gradual cooling, not a sharp downturn – though persistently weak hiring bears watching as a potential constraint on broader economic activity as the year progresses.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Expansion firmed, but so did frictions

The May Institute of Supply Management (ISM) surveys pointed to a U.S. economy that remained on a growth footing. The ISM Services PMI (Purchasing Managers' Index) rose to 54.5 (from 53.6 in April),

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Expansion firmed, but so did frictions *continued*

marking nearly two years in expansion territory, while the Manufacturing PMI climbed to 54.0 (from 52.7), its highest reading since mid-2022 and the fifth consecutive month above breakeven. Together, the reports suggest business activity improved across both goods- and services-producing sectors, even as businesses continue to operate in a more cost-constrained environment.



Beneath the surface, demand appears to have regained traction – but hiring has yet to follow. Businesses reported stronger production and improving order flows, suggesting customers remain engaged. At the same time, employment indicators continued to lag, pointing to an environment where companies are supporting output but remain hesitant to expand payrolls. The result is a familiar pattern: growth is intact, but without a corresponding pickup in labor demand, as businesses lean on productivity, existing capacity, or delay hiring amid heightened uncertainty.

The clearest signal from the May reports remains the persistence of cost and supply pressures. Across both manufacturing and services, respondents continued to highlight higher input costs, with energy, transportation and materials frequently cited as key sources of strain. Delivery times remain slow, inventories are being actively managed, and ordering patterns are increasingly shaped by potential disruptions. In some cases, firmer activity itself may reflect precaution, as businesses pull forward orders or rebuild inventories ahead of further cost increases or supply constraints.

For the broader macro outlook, the key takeaway is a modest shift in tone rather than direction. The expansion has not only held but firmed modestly. Still, the underlying mix reflects the same tension seen in recent months. Demand remains resilient enough to sustain growth, yet cautious hiring and persistent cost pressures suggest the expansion continues to be shaped as much by constraints as by momentum.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Inflation data in focus as price pressures firm

This week's data calendar is squarely focused on inflation, with the May Consumer Price Index (CPI) and Producer Price Index (PPI) providing the first read on price dynamics heading into the summer. Recent data point to a renewed firming in price pressures – particularly in energy – and this week's releases should clarify whether that trend is broadening. We expect headline inflation to move higher in the near term, while underlying core measures show only limited signs of easing.

We expect **Wednesday's CPI report** to show headline inflation rising to 4.2% YoY in May, up from 3.8% in April, driven by a strong 0.5% monthly gain largely reflecting higher gasoline prices. Core CPI is projected to increase 0.3% month-over-month (MoM) – a modest step down from April's 0.4% pace – bringing the year-over-year rate to 2.9% from 2.8%.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Inflation data in focus as price pressures firm *continued*

While the pickup in headline inflation may mark a near-term high for the year, persistently firm core services inflation will remain a key concern for policymakers.

Producer price data on Thursday is expected to reinforce this narrative. We look for headline PPI to rise 0.8% MoM in May, easing from April's 1.4% increase but still indicative of elevated upstream cost pressures. Core PPI is projected to advance 0.6% MoM, with transportation-related components again a key driver. Several categories that feed directly into Personal Consumption Expenditures (PCE) inflation – notably airfares, portfolio management fees and healthcare services – are likely to post solid gains, pointing to ongoing pipeline pressures on the Fed's preferred inflation gauge.

On the consumer side, Friday's preliminary June reading of the **University of Michigan Sentiment Index** should provide insight into how households are responding to these dynamics. We expect sentiment to remain near historically low levels, reflecting the cumulative impact of higher prices and continued sensitivity to gasoline costs.

Finally, the Federal Reserve enters its blackout period ahead of the **June 16–17 Federal Open Market Committee (FOMC) Meeting** – Chair Kevin Warsh's first at the helm – which is likely to attract elevated market attention. Altogether, this week's data should reinforce the view that inflation remains sticky in the near term, supporting a cautious, wait-and-see approach from policymakers.

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 8 through June 12						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
6/9/2026	5 a.m.	NFIB Small business optimism index	May	95.9	96.0	95.9
	7:30 a.m.	Trade Balance	Apr	-58.5	-55.5	-60.3
	9 a.m.	Existing home sales (mln) Wholesale Inventories (MoM)	May Apr F	4.1	4.1	4.0 0.5
6/10/2026	7:30 a.m.	CPI (MoM)	May	0.5	0.5	0.6
		CPI (YoY)	May	4.2	4.2	3.8
		CPI (ex-food & energy) (MoM)	May	0.3	0.3	0.4
		CPI (ex-food & energy) (YoY)	May	2.9	2.9	2.8
	1 p.m.	US budget deficit (\$ bil.)	May			215
6/11/2026	7:30 a.m.	Initial Jobless Claims	6-Jun	215k		225k
		PPI (MoM)	May	0.8	0.7	1.4
		PPI (YoY)	May			6.0
		PPI (ex-food & energy) (MoM)	May	0.6	0.5	1.0
		PPI (ex-food & energy) (YoY)	May			5.2
6/12/2026	9 a.m.	U. Mich. Consumer Sentiment	Jun P	45.0	46.0	44.8

Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 6/5/2026.

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