WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | July 17, 2026

THE WEEK'S ECONOMY AT A GLANCE

The smoke begins to clear

The week's economic data offered signs that the inflation haze lifted in June. Both consumer and producer prices cooled more than expected, easing concerns that this spring's inflation pickup signaled a broader reacceleration in price pressures, particularly at the core. Retail sales data also suggested household spending remained resilient despite slower job growth and elevated interest rates, helping sustain economic growth entering the second half of the year and reinforcing our soft-landing narrative. While the latest data should reassure policymakers that inflation is moving in the right direction, Federal Reserve officials struck a cautious tone this week, emphasizing that additional evidence will be needed before declaring victory over inflation or considering a shift in policy. We expect the Fed to remain on hold through 2027. Indeed, it is increasingly possible that the current federal funds rate proves to be the lowest policy rate of this cycle.

What this means for business: *Softer inflation and lower energy costs should provide some relief on both input costs and consumer budgets, while continued strength in retail spending suggests demand remains intact. For businesses, the environment increasingly looks less like one defined by inflation shocks and more like one where growth depends on execution, pricing discipline, and the ability to compete for a consumer who remains willing to spend, but increasingly selective.*

Quote of the week

June's inflation data suggest the spring surge may have been more smoke than fire. While one month doesn't make a trend and Middle East pressures remain, the combination of softer consumer and producer prices provides encouraging evidence that underlying inflation pressures are trending back in the right direction.

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

Important disclosures provided on last page

ECONOMIC DATA OF THE WEEK

0.0%

Core consumer prices were unchanged in June (0.0% month-over-month), the softest monthly core Consumer Price Index (CPI) reading since May 2020 and a notable downside surprise after firmer inflation readings earlier this spring. The flat monthly reading lowered the year-over-year core inflation rate to 2.6%, its lowest level in more than a year. Headline CPI also softened meaningfully, -0.4% month-over-month (MoM) and +3.5% year-over-year (YoY) in June, as lower gasoline and broader energy prices reversed much of the spring's inflation surge. Together, the data suggest inflation pressures cooled more broadly than expected at the end of the second quarter.

ECONOMIC REPORT OF THE WEEK

June Consumer Price Index

June's CPI report offered the clearest evidence in several months that inflation pressures are moving back in a more favorable direction. Lower energy prices were the most visible source of relief, with gasoline prices falling sharply after contributing to much of the spring increase in headline inflation. But the improvement was not limited to energy. Several underlying categories also softened, suggesting the inflation surprise reflected more than a simple reversal in oil and gasoline prices.

Housing inflation, one of the most persistent drivers of inflation over the past several years, continued to lose momentum. Rent of primary residence and owners' equivalent rent both posted modest monthly increases. Meanwhile, core services excluding housing (or 'super-core' CPI) also softened, helped by declines in transportation-related categories, hotels, and medical services. These details are important because services inflation has been a key area of focus for Federal Reserve officials assessing whether inflation is sustainably returning toward target.

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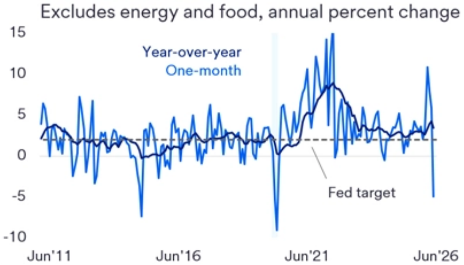
Meanwhile, goods prices remained subdued as well, despite earlier concerns that tariffs and higher transportation costs could place renewed upward pressure on consumer prices. Apparel and used vehicle prices declined, new vehicle prices were flat, and broader core goods prices fell for a second consecutive month. While certain categories tied to technology and recreation showed pockets of strength, the overall report provided limited evidence of broad-based tariff pass-through to consumer prices.

ECONOMIC REPORT OF THE WEEK

June Consumer Price Index *continued*

All told, the June CPI report should reduce concerns that inflation was reaccelerating in a sustained way. Still, one month of softer data is unlikely to shift the Federal Reserve's policy stance on its own. Inflation remains above the Fed's 2% target, and policymakers will likely want additional confirmation that the improvement marks the beginning of a more durable trend rather than another temporary reprieve.

Headline CPI index
Excludes energy and food, annual percent change



Core CPI index
Excludes energy and food, annual percent change

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

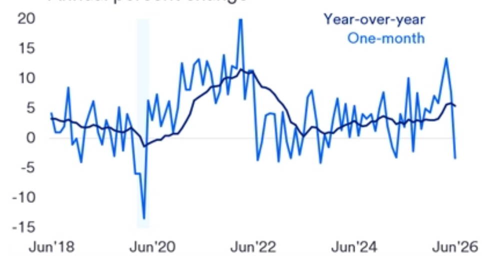
ECONOMIC TRENDS: PRODUCER AND CONSUMER PRICES

Consumer confidence: Labor market concerns temper modest improvement

June's Producer Price Index (PPI) report reinforced the message from CPI, with inflation pressures cooling at both the consumer and producer levels at the end of the second quarter. Final demand producer prices declined -0.3% MoM in June, reversing part of May's increase and lowering the year-over-year rate to +5.5% (from 6.0%). As with CPI, falling energy prices played a key role, with final demand energy prices dropping sharply and gasoline accounting for much of the decline in goods prices. Wholesale food prices also fell, adding another source of relief.

Importantly, the softer PPI reading was not confined to volatile energy and food categories. Core PPI excluding food and energy rose a modest 0.2% MoM (4.7% YoY), while the measure excluding food, energy and trade services increased just 0.1% MoM (5.1% YoY) after a much larger gain in May. Services prices remained positive but contained, with trade-service margins contributing to the increase while transportation and warehousing prices declined. Downward revisions to May's PPI also made the recent inflation pipeline look less concerning than previously reported.

Producer price index (PPI): final demand
Annual percent change



Core PPI: final demand
Excludes food, energy, and trade, annual percent change

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

Taken together, the June CPI and PPI reports suggest the spring inflation scare was more likely tied to temporary energy-related pressures than a renewed, broad-based acceleration in prices. The data also provide some reassurance that higher input costs, tariffs and transportation expenses have not translated into a sustained pickup in consumer inflation. For businesses, that may offer some relief that cost pressures are becoming less widespread, even as companies continue to navigate elevated prices in certain categories. That said, producer-price inflation remains elevated on a year-over-year basis, and renewed increases in oil prices could still complicate the inflation outlook in the months ahead.

For the Federal Reserve, the week's inflation reports support patience. The cooler price pressures reduce the likelihood of near-term rate hikes and strengthen the case for holding policy steady while officials evaluate whether disinflation is regaining momentum.

ECONOMIC TRENDS: PRODUCERS AND CONSUMERS

Consumer confidence: Labor market concerns temper modest improvement *continued*

But the Fed is unlikely to declare victory based on one month of data. With core inflation still trending above target and some risks lingering from energy prices, tariffs, and services inflation, policymakers will likely look for additional evidence before making a more decisive shift in policy guidance. That continued caution from the Fed suggests interest rates may remain high for longer, keeping borrowing costs elevated for businesses and consumers alike.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Retail sales: Still carrying the load

Consumer spending remained an important source of economic support at the end of the second quarter. Total retail sales rose 0.2% MoM in June (6.7% YoY), matching expectations albeit slowing from May's revised 1.0% gain. Much of the moderation reflected a 5.3% MoM decline in gasoline station sales as lower fuel prices reduced spending at the pump. Excluding gasoline stations, however, sales rose a healthy 0.7% MoM (5.7% YoY), while the retail control group – a closely watched measure that feeds directly into GDP – advanced 0.5% MoM (6.4% YoY). Last month’s strength was concentrated in online retailers, auto dealers and sporting goods stores, suggesting households continued to spend despite elevated interest rates and lingering uncertainty.

The report reinforces a broader theme that has characterized much of the past year. Consumer spending continues to outperform what might typically be expected amid slower job growth and a cooler labor market. Payroll gains have moderated meaningfully from the pace seen in recent years, yet households continue to benefit from steady wage growth, low unemployment and generally healthy balance sheets. Lower gasoline prices likely provided an additional boost in June, freeing up income for other purchases. At the same time, spending patterns remain selective, with consumers willing to spend in some categories while remaining cautious in others.

From a broader economic perspective, the retail sales report points to firmer consumer activity entering the second half of the year than many anticipated just a few months ago. Using CPI-adjusted estimates, we calculate that retail sales increased a solid 1.3% MoM in real terms during June, helping lift real consumer spending on goods to roughly a 2.1% annualized pace in the second quarter. While spending growth is unlikely to accelerate amid slower hiring and still-elevated borrowing costs, steady consumer demand continues to provide an important foundation for economic expansion.

U.S. Bank Economics, Bloomberg, U.S. Census Bureau

ECONOMIC TRENDS: MONETARY POLICY

Fed officials see progress – but remain cautious

Federal Reserve officials struck a generally hawkish tone this week, reinforcing concerns that inflation may prove more persistent than expected despite softer-than-anticipated June CPI and PPI reports. Much of the focus centered on Chair Kevin Warsh’s first appearances before the House Financial Services Committee and Senate Banking Committee,

ECONOMIC TRENDS: MONETARY POLICY

Fed officials see progress – but remain cautious *continued*

where he repeatedly emphasized the Fed's commitment to restoring price stability and argued that monetary policy remains the primary tool for addressing underlying inflation pressures.

Warsh described getting policy "right, or as near to right as we possibly can" as the Fed's top priority, and acknowledged the burden inflation has placed on households and businesses. While offering few direct signals about the near-term policy path, his remarks reinforced that the Fed remains focused on inflation risks and is prepared to maintain a restrictive stance until price pressures show more convincing signs of easing. Similar themes emerged this week from other policymakers. Governor Cook, for example, argued that recent inflation pressures extend beyond energy prices, pointing to continued investment in AI infrastructure and strong demand for technology-related goods and services. She noted that inflation risks currently outweigh employment concerns and reiterated that policymakers need additional evidence that inflation is moving sustainably lower. Governor Waller likewise cautioned against assuming inflation will continue to moderate automatically, emphasizing that officials must determine whether recent price pressures represent a temporary interruption or the beginning of a more persistent trend.

At the same time, policymakers emphasized that incoming data will remain critical. Speaking before this week's CPI and PPI releases, Governor Waller noted that several months of softer inflation readings would be needed to increase confidence that inflation is moving in the right direction. In that respect, June's cooler inflation reports likely provide some reassurance and support for maintaining the current policy stance.

We expect the Federal Open Market Committee (FOMC) to leave the federal funds rate unchanged at its July 28-29 meeting, but this week's commentary suggests officials remain focused on upside inflation risks and are increasingly attentive to whether current policy is sufficiently restrictive. Additional policy restraint remains possible if inflation progress stalls or price pressures reemerge in the months ahead.

Bottom line: Fed officials used their final public appearances before the July FOMC meeting to deliver a consistent message. While June's inflation data were encouraging, policymakers remain focused on upside inflation risks and continue to seek greater confidence that inflation is moving sustainably toward target. Our view remains that the federal funds rate is likely at its cycle low and that the Fed will remain on hold through 2027. That said, recent commentary makes clear that officials still view tightening – not rate cuts – as the more plausible policy response should inflation progress stall in the months ahead.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: A quieter stretch

The week ahead brings a relatively light economic calendar, with few major data releases and no scheduled public remarks from Federal Reserve officials as policymakers enter the blackout period ahead of the July 28-29 FOMC meeting.

Thursday's **Initial Jobless Claims** report will offer another timely read on labor market conditions. We expect claims to edge up to 210,000 in the week ending July 18 from 208,000 the previous week. Recent claims data remain consistent with a fundamentally stable labor market, as employers continue to retain workers despite slower hiring. That said, seasonal volatility is common during the summer months, and weekly readings should be interpreted with some caution.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: A quieter stretch *continued*

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Attention then shifts to the housing market on Friday with the release of June **New Home Sales**. We expect sales to increase to an annualized pace of 610,000 units, up from 580,000 in May, though still indicative of subdued activity. Builders continue to benefit from greater flexibility in pricing and incentives than existing homeowners, but elevated mortgage rates remain a meaningful constraint on demand. While an improvement in sales would be encouraging, rising inventories suggest home price appreciation may remain under pressure in the months ahead.

While neither report is likely to alter expectations for the July FOMC meeting, both should provide additional insight into two areas policymakers are watching closely: labor market stability and the housing sector's response to elevated interest rates.

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 - July 20 through July 24

Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
7/20/2026	9 a.m.	**Leading index**	Jun	**-0.1**	-0.1	0.1
7/23/2026	7:30 a.m.	**Initial Jobless Claims**	18-Jul	**210k**	213k	208k
7/24/2026	8:45 a.m.	**S&P Global US Services PMI**	Jul P			51.2
		S&P Global US Composite PMI	Jul P			51.9
		S&P Global US Manufacturing PMI	Jul P	**54.4**	54.4	53.9
	9 a.m.	**New home sales (000)**	Jun	**610**	615	580

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 7/17/2026.

Disclosures