



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economic Research Group | October 9, 2026

THE WEEK'S ECONOMY AT A GLANCE

Resilience isn't free

With relatively few major economic releases this week, attention shifted from the flow of data to the message behind it. And the takeaway was straightforward. The U.S. economy continues to show surprising resilience, but the costs of that resilience are becoming harder to ignore. September's FOMC meeting minutes reinforced policymakers' concern that inflation remains too high and that additional policy tightening may still be needed. At the same time, business activity continues to expand, supporting the view that the economy remains on solid footing.

Yet signs are emerging that elevated interest rates and persistent price pressures are gradually affecting household finances. Consumer borrowing slowed in August, confidence fell to a five-month low in early October, and inflation expectations moved higher again. Taken together, this week's reports suggest the economy remains strong enough to support growth, but increasingly vulnerable to the cumulative effects of higher borrowing costs and diminished affordability.

What this means for business: The economy remains strong enough to support growth, but higher borrowing costs and affordability pressures are making consumers and businesses increasingly selective in their spending and investment decisions.



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“Most”

It isn't a number, but it may be the most important takeaway from the September FOMC meeting minutes. 'Most' Federal Reserve officials thought another interest-rate increase would likely be appropriate by year-end, reinforcing that the Committee's unanimous 25-basis-point hike was not expected to be a one-time move. Inflation remained above target and risks to the outlook were still viewed as tilted to the upside. Officials nevertheless approached the coming meetings with an open mind, emphasizing that policy was not on a predetermined path. With employment and price readings moderating since the meeting, we expect the Fed to wait until December before raising rates again, followed by another increase in spring 2027.

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September FOMC minutes

Minutes from the Federal Reserve's September meeting reinforced the Committee's renewed focus on inflation. All participants supported raising the federal funds rate by 25 basis points to a range of 3.75% to 4.00%, concluding that progress toward the Fed's 2% inflation objective had been insufficient. Almost all continued to see inflation risks as tilted to the upside, while risks to the labor market had diminished and were broadly balanced. More broadly, policymakers generally viewed economic activity as expanding at a solid pace and labor-market conditions as consistent with an economy near maximum employment, allowing inflation to remain the Committee's primary concern.

The discussion was hawkish but didn't necessarily signal urgency. Many participants viewed a higher policy-rate path as prudent insurance against stronger demand or renewed supply shocks, while others believed further tightening was warranted by their baseline outlook. Most thought another increase would likely be appropriate by year-end, but officials emphasized that each meeting would be approached with an open mind and that future decisions would depend on incoming data and the evolving balance of risks.

Importantly, the minutes reflect conditions in mid-September. Since then, revisions have shown somewhat more disinflation than officials anticipated, while recent employment data have pointed to some cooling. Those developments reduce the urgency for another immediate increase at the October 27–28 FOMC meeting without resolving the Fed’s concern that inflation may remain above target for too long. Governor Christopher Waller reinforced that message this week, indicating that he anticipates “additional hikes” if the economy continues to evolve as expected, while emphasizing flexibility regarding their timing. We expect the Committee to raise rates again in December and spring 2027, although that path will depend on whether upcoming data continue to show an economy resilient enough to absorb further tightening.

Quote of the week

“The economy is still moving forward, but the bill is getting larger. Higher borrowing costs and affordability pressures are gradually becoming a bigger part of the story for households and businesses alike.”

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

Economic trends: Business activity

Business activity remains firm, but price pressures persist

The latest business surveys help explain why Federal Reserve officials remain focused on inflation. The Institute for Supply Management (ISM) Manufacturing Purchasing Managers’ Index (PMI) was little changed at 54.5 in September, while the Services PMI eased to 54.9, leaving both sectors firmly in expansion. Demand remained resilient across both sectors, with manufacturers reporting stronger new orders and service providers continuing to see healthy customer activity. Employment improved in both surveys, although the services measure only narrowly returned to expansion. Overall, the reports suggest economic activity remains solid but is not shifting into a meaningfully higher gear.



Sources: U.S. Bank Economics, Bloomberg, Institute for Supply Management (ISM).

The more notable signal came from prices and supply conditions.

The manufacturing prices index jumped 6.8 points to 77.9, while the services prices index rose to 74.0, its highest level since July 2022. Supplier delivery times remained elevated in manufacturing and lengthened further across services, with respondents frequently citing fuel costs, tariffs, and supply-chain constraints as drivers of higher costs and longer lead times. Some manufacturers also pointed to strong AI and data-center demand as stretching capacity for certain materials and components.

To be sure, the surveys measure how broadly costs are increasing rather than the magnitude of those increases, and higher input costs will not necessarily pass fully into consumer prices. Still, the combination of resilient demand, improving employment conditions, and broader cost pressures offers the Fed little assurance that inflation will return quickly to its 2% target. As a result, the reports reinforce our expectation that officials will remain patient in October while retaining a bias toward additional tightening as they assess whether higher energy and supply costs begin to spread more broadly through the economy.

[Economic trends: Monetary policy](#)

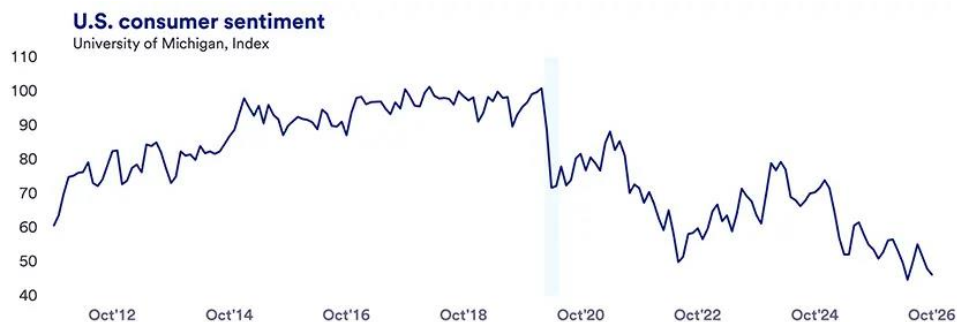
Higher rates raise the cost of consumer credit

Consumer borrowing slowed in August even as household spending remained resilient. Total consumer credit increased \$8.3 billion, less than half July's revised \$17.7 billion gain, as a decline in revolving credit partly offset continued growth in auto, student, and other nonrevolving loans. One month does not make a trend, however, and lower revolving balances can reflect reduced borrowing, faster repayment, or changing payment behavior rather than an outright pullback in spending. Still, the composition suggests households may be becoming more selective about carrying short-term debt as financing costs remain elevated. The average interest rate on credit-card accounts assessed interest, for example, stood at more than 22% in August, while rates on personal and auto loans also remained high.

That pressure could intensify as higher Treasury yields continue to filter through to household financing costs. Long-term yields have risen sharply since the September FOMC meeting, reflecting stronger growth, expectations for additional Fed tightening, and a higher term premium. The broader economy appears to be absorbing that increase so far, supported by stable employment, household wealth, and continued spending. But the effects are likely to emerge gradually as consumers take out new loans or refinance existing obligations. While August's softer credit growth does not signal a broad retrenchment, it offers an early indication that elevated rates may be influencing borrowing decisions even before they produce a more visible slowdown in consumer demand.

Consumer confidence: Households grow more uneasy

Consumer sentiment fell to a five-month low in early October as households grew increasingly dissatisfied with current economic conditions. The University of Michigan index declined 1.8 points to 46.3, driven by a sharp drop in the current conditions measure to a new record low. The forward-looking component offered a somewhat more encouraging signal, rising for the first time since July as expectations for personal finances and business conditions improved slightly. Still, worsening views of current conditions suggest that the combination of persistent inflation and elevated borrowing costs (i.e., affordability) is placing greater pressure on household budgets, particularly among lower-income consumers and those with fewer stock-market investments.



Sources: U.S. Bank Economics, Bloomberg, University of Michigan.

Inflation expectations also moved higher for a second consecutive month. Consumers now expect prices to rise 4.7% over the coming year and 3.5% annually over the next five to 10 years, with both measures reaching their highest levels since May. High-frequency sentiment measures do not always translate directly into spending. And stable employment, rising household wealth, and recent gains in income continue to support consumption. Nevertheless, the deterioration in current conditions reinforces the risk that persistent price pressures and higher financing costs could eventually make households more cautious, particularly if labor-market conditions weaken or elevated rates endure.

Data and reports we're watching this week: Inflation, spending, and the Fed

This week's releases will provide an important update on inflation pressures and consumer demand, two issues at the center of the economic outlook and the Federal Reserve's policy deliberations. The September Consumer Price Index (CPI) is due on Wednesday, followed by Retail Sales and Producer Price Index (PPI) on Thursday. A busy week of Fed communications, including remarks from Chair Warsh on Thursday, should provide additional insight into how policymakers are assessing the path of inflation and the need for further policy tightening.

Wednesday's CPI report is expected to show inflation firming in September. We expect headline CPI to rise 0.6% month-over-month (MoM), up from 0.4% in August, largely reflecting higher gasoline prices. Such a reading would lift the year-over-year inflation rate to 3.7% from 3.4%. Core CPI is expected to increase 0.2% MoM for a second consecutive month, nudging the annual rate up to 2.5% from 2.4%. While inflation would remain above the Federal Reserve's 2% target, the report is unlikely to be strong enough to accelerate the Fed's rate-hiking timeline. However, it would reinforce the case for keeping another rate increase on the table later this year.

Attention then shifts to the consumer on **Thursday with the September Retail Sales report**. We expect retail sales to increase 0.4% MoM following a robust 1.1% gain in August. Because retail sales are reported in nominal terms, a portion of the expected increase is likely attributable to higher gasoline prices rather than stronger underlying demand. Even so, another month of growth would suggest consumer spending remains resilient despite elevated interest rates and inflation.

Thursday will also bring the September Producer Price Index report. We expect headline PPI to rise 0.5% MoM, up from 0.4% in August, while core PPI excluding food and energy increases 0.3% following a 0.2% gain the prior month. Higher energy costs were a key driver of producer price inflation in August and are likely to remain an important factor in September. Together, the CPI and PPI reports should help clarify whether recent inflation pressures remain concentrated in energy-related categories or are becoming more broadly based across the economy.

Fed communications will also be closely watched throughout the week. Following September's rate Thursday may provide additional insight into how the Committee is assessing the balance between still-elevated inflation and continued economic resilience.

Taken together, this week's releases should provide an important update on inflation pressures, consumer spending, and the likelihood of additional Federal Reserve policy tightening before year-end.

Economic data calendar this week

What we're watching this week, including release dates and projections from the U.S. Bank Economic Research Group.

U.S. economic calendar - October 12 through October 16						
Date	Time (CST)	Release	For	USB Econ	Consensus	Previous
10/13/2026	5 a.m.	NFIB Small business optimism index	Sep	98.4	98.0	98.7
	9 a.m.	Existing home sales (mln)	Sep	3.9	4.0	4.0
	1 p.m.	US budget deficit (\$ bil.)	Sep			-166.8
10/14/2026	7:30 a.m.	CPI (MoM)	Sep	0.6	0.6	0.4
		CPI (YoY)	Sep	3.6	3.6	3.4
		CPI (ex-food & energy) (MoM)	Sep	0.2	0.2	0.3
		CPI (ex-food & energy) (YoY)	Sep	2.5	2.5	2.4
	1 p.m.	Fed Beige Book				
10/15/2026	7:30 a.m.	Retail sales (MoM)	Sep	0.3	0.3	1.1
		Retail sales ex-auto (MoM)	Sep	0.5	0.5	1.3
		Retail sales control group (MoM)	Sep	0.3	0.3	1.2
		Empire State manufacturing	Oct			7.6
		Philly Fed manufacturing	Oct	28.4	26.4	37.8
		Initial Jobless Claims	10-Oct			197.0
		PPI (MoM)	Sep	0.5	0.5	0.4
		PPI (YoY)	Sep	5.3	5.3	5.4
		PPI (ex-food & energy) (MoM)	Sep	0.3	0.3	0.2
		PPI (ex-food & energy) (YoY)	Sep	4.4	4.4	4.6
		Business inventories (MoM)	Aug	0.4	0.4	0.8
		Import prices (MoM)	Sep	0.6	0.6	0.7
10/16/2026	8:15 a.m.	Industrial production (MoM)	Sep	0.3	0.4	0.0
	3 p.m.	TIC flows (\$ bil.)	Aug			83.7

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 10/9/2026.

Federal Open Market Committee (FOMC)

Speaker Calendar

Oct. 12, 11:10 a.m.: Hammack (Cleveland Fed/Voter)

Oct. 13, 2:45 a.m.: Waller (Board of Governors/Voter)

Oct. 13, noon: Barkin (Richmond Fed/Non-Voter)

Oct. 13, 3 p.m.: Collins (Boston Fed/Non-Voter)

Oct. 14, 4:40 a.m.: Bowman (Board of Governors/Voter)

Oct. 14, 12:30 p.m.: Barkin (Richmond Fed/Non-Voter)

Oct. 15, 3:30 p.m.: Hammack (Cleveland Fed/Voter)

Oct. 15, 10:30 p.m.: Warsh (Board of Governors/Voter)

Disclosures

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