



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economic Research Group | October 23, 2026

THE WEEK'S ECONOMY AT A GLANCE

Still running hot

This week's economic data reinforced a familiar theme: Growth remains resilient, but inflation and interest rates continue to shape the outlook. October business surveys showed economic activity holding near a five-year high, underscoring the economy's continued momentum despite elevated borrowing costs. At the same time, housing activity continues to soften under the weight of higher mortgage rates, and recent market volatility highlights growing sensitivity to financing costs across financial markets. As a result, this week's Federal Reserve meeting and key GDP and inflation reports could provide important clues about whether strong growth and persistent inflation will keep additional policy tightening on the table.

What this means for business: Growth remains strong enough to support business activity, but inflation and interest rates are likely to remain key challenges heading into year-end. Companies should prepare for borrowing costs to stay elevated and financial conditions to remain restrictive even if the Federal Reserve pauses next week.



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The National Association of Home Builders (NAHB) Housing Market Index, a key measure of homebuilder sentiment, fell to 29 in October, the lowest in more than 14 years. Builders reported that mortgage rates above 7%, elevated construction costs, and weaker buyer traffic continue to weigh heavy on demand, while price cuts and sales incentives became increasingly common. The NAHB report reinforces a theme that appeared repeatedly across this week's housing data, with higher interest rates placing growing pressure on builder sentiment, buyer activity, and residential construction.

October FOMC preview

The Federal Open Market Committee's (FOMC) October 27–28 meeting is widely expected to result in no change to the federal funds rate following September's 25-basis-point increase. Yet the absence of a rate hike should not be mistaken for the end of the tightening cycle. Inflation remains above the Fed's 2% objective, economic growth has remained resilient, and recent business surveys suggest pricing pressures may be reaccelerating. As a result, policymakers are likely to leave rates unchanged while maintaining a clear bias toward additional tightening should inflation fail to make further progress.

While policymakers are expected to hold rates steady, recent comments suggest the Committee remains broadly aligned in viewing inflation as the primary policy challenge. Most officials continue to express concern that price pressures have remained above target for an extended period, even as labor market conditions have stabilized and growth shows signs of moderating only gradually. At the same time, tighter financial conditions, increased market volatility, and signs of strain in interest-rate-sensitive sectors such as housing provide support for a more measured approach. As a result, an October pause would likely reflect patience rather than a materially different assessment of the economic outlook.

The October meeting will also provide another test of Chair Kevin Warsh's preference for limiting forward guidance and placing greater emphasis on incoming data. Rather than signaling a predetermined path for rates, he's likely to emphasize flexibility as policymakers assess future inflation and labor market developments. Although we expect the Fed to leave rates unchanged next week, we continue to believe additional rate increases remain more likely than rate cuts, with December appearing the most plausible opportunity for further tightening.

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Chief economist quote of the week

"The Fed is getting some of what it wants, but not all of it. Higher interest rates are slowing housing and tightening financial conditions, yet broader economic activity remains strong enough to keep inflation concerns alive."

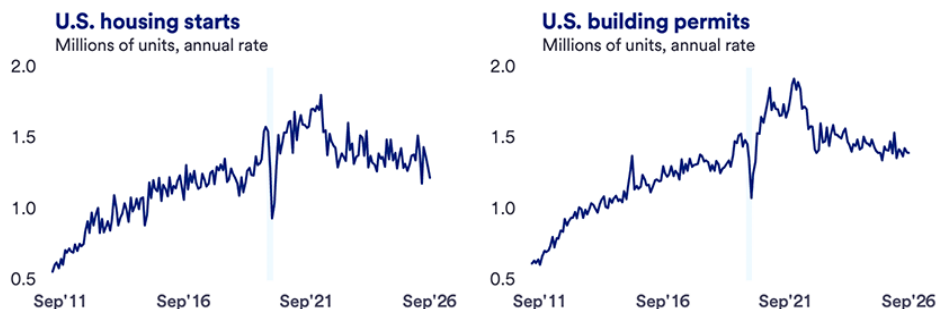
Beth Ann Bovino,
Chief Economist, U.S. Bank

Economic trends: Housing sector

Housing: Feeling the full weight of higher rates

Housing remained one of the clearest signs of strain in this week's economic data. Higher mortgage rates and persistent affordability challenges continued to weigh on both construction activity and homebuyer demand, reinforcing the view that the sector remains among the most interest-rate-sensitive sectors of the economy.

The Census Bureau reported that housing starts fell 5.2% month-over-month (MoM) in September to an annualized rate of 1.221 million units, well below expectations. Weaknesses were broad-based, with both single-family and multifamily construction declining during the month. Building permits edged down just 0.2% MoM, but single-family permits fell 4.0%. Given that permits are among the most reliable leading indicators of future construction activity, the decline suggests builders are becoming increasingly cautious about the housing outlook. While much of the weakness was concentrated in the West, permits have shown little overall progress in recent months, pointing to limited momentum in residential construction heading into year-end.



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

Evidence of softer demand was also apparent in the National Association of Realtors' pending home sales report, which showed contract signings falling 7.3% MoM in September and more than 11% from a year earlier. Combined with weakening builder sentiment and mortgage rates hovering near 7.50%, the latest data suggest that higher borrowing costs are continuing to dampen both buyer demand and construction activity. As a result, housing appears likely to remain a headwind to economic growth in the months ahead, even as other areas of the economy have proven more resilient.

Business activity: Resilience keeps inflation pressures alive

The latest S&P Global Purchasing Managers' Indexes (PMIs) suggest the U.S. economy entered the fourth quarter with considerable momentum. Although the composite output index eased slightly to 57.6 in October (from 58.4 in September), business activity remained near a five-year high and consistent with one of the strongest periods of growth since 2022. Businesses continued to report robust demand, rising output, and growing new orders, reinforcing a theme that has emerged repeatedly across recent economic releases – namely that higher borrowing costs have done little to materially restrain activity across much of the economy.



Sources: U.S. Bank Economics, Bloomberg, S&P Global.

Demand remained particularly strong beneath the headline figures. New orders increased at the fastest pace in more than four years, while export demand improved noticeably after a prolonged period of weakness. Businesses also reported growing backlogs of work, suggesting demand continues to outpace available capacity in some areas of the economy. At the same time, employment growth remained exceptionally strong as businesses added workers to keep pace with rising workloads, with manufacturing payrolls posting their strongest increase since 2012.

The report also delivered a less encouraging message on inflation. Selling prices rose at the fastest pace since mid-2022 as businesses sought to pass higher costs on to customers. Survey respondents cited rising energy, fuel, freight, and raw material costs, while supplier delivery delays intensified and order backlogs continued to build. Although one month's survey does not establish a trend, the results suggest that inflation pressures became more widespread at a time when overall economic activity remains strong.

Taken together, the October PMI data reinforce the economy's remarkable resilience while also highlighting the challenges facing policymakers. Historical comparisons from S&P Global suggest the survey remains consistent with annualized economic growth near 5% at the start of the fourth quarter. Yet the same forces supporting growth are also contributing to renewed pricing pressures, underscoring why concerns about inflation have not fully disappeared.

Interest rates: Flight to safety interrupts rise in yields

Financial markets delivered one of the week's biggest surprises when the 10-year U.S. Treasury yield fell back below 5% on **Thursday afternoon** – after reaching its highest level in more than a decade earlier this month. The move was driven less by weaker economic data than by a sharp selloff in technology stocks and a broader shift toward safer assets. Investors seemed to be questioning whether the enormous capital commitments associated with the AI investment boom can continue indefinitely in a world of elevated financing costs, prompting a flight to quality.



Sources: U.S. Bank Economics, Bloomberg, Mortgage Bankers Association (MBA).

While the rally provided some relief after a prolonged rise in borrowing costs, it should not necessarily be viewed as evidence that long-term interest rates have peaked. Economic data released this week continued to point to solid growth, [resilient labor market](#) conditions, and lingering inflation pressures. As a result, many of the factors that contributed to higher Treasury yields in recent months, including persistent inflation, heavy Treasury issuance, and a larger term premium, remain in place. Viewed through that lens, this week's decline in yields may say more about shifting investor sentiment than about a fundamental change in the economic outlook.

Data and reports we're watching this week: Growth, inflation, and the Fed

This week's economic calendar features several releases that will help shape the outlook for monetary policy heading into year-end. The Federal Reserve concludes its October policy meeting on Wednesday, followed on Thursday by the advance estimate of third-quarter GDP growth and September Personal Income, Spending, and PCE inflation data. Together, these reports should provide important insight into the balance between economic growth, inflation pressures, and the need for additional policy tightening.

The week's main event will be the **October FOMC meeting, which concludes Wednesday afternoon** with the Federal Reserve's policy announcement, accompanying statement, and Chair Warsh's press conference. We expect policymakers to leave the federal funds rate unchanged at 3.75%–4.00% following September's 25-basis-point increase. With no updated Summary of Economic Projections (SEP) or dot plot scheduled for this meeting, investors will focus on the policy statement and Chair Warsh's remarks for clues about the likelihood and timing of any additional tightening. While an October pause appears likely, we continue to expect the Fed to raise rates again in December.

Thursday's advance estimate of third-quarter GDP is expected to show the economy remains on solid footing. We forecast real GDP growth of 3.3% at an annualized rate, supported by strong consumer spending. Personal consumption expenditures (PCE), which account for roughly two-thirds of economic activity, likely increased 3.4% during the quarter. Such a result would reinforce the view that economic activity remains resilient despite elevated interest rates and continued inflation pressures.

Thursday's monthly Personal Income and Outlays report is expected to show inflation remaining above the Fed's 2% objective. We forecast headline PCE prices rose 0.5% MoM in September, lifting the year-over-year rate to 3.6%, while core PCE inflation is expected to have risen 0.3% MoM and 3.1% year-over-year. Higher fuel costs, particularly for transportation-related services, are expected to be a key driver of inflation during the month. We also expect personal income to increase 0.2% MoM, while nominal consumer spending rises 0.6% MoM following a 0.9% gain in August. Because a portion of the spending increase is likely to reflect higher gasoline prices, real spending likely slowed in September but remained positive.

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 26 through October 30						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
10/27/2026	7:30 a.m.	Durable goods orders (MoM)	Sep P	1.4	1.4	-0.1
		Durable goods ex. transportation (MoM)	Sep P	0.6	0.6	0.2
		Capital goods orders nondef ex. air	Sep P	0.7	0.7	1.6
	8 a.m.	S&P/Case-Shiller home prices (MoM)	Aug	0.3	0.3	0.3
		FHFA home prices (MoM)	Aug			0.3
	9 a.m.	Conf. Board consumer confidence	Oct	80.2	80.4	81.9
		New home sales (000)	Sep	652.0	650.0	684.0
10/28/2026	7:30 a.m.	Advance goods trade balance	Sep	-131.1	-129.0	-132.1
		Retail inventories (MoM)	Sep			0.2
		Wholesale inventories (MoM)	Sep P			0.5
	1 p.m.	FOMC rate decision (upper bound)		4.0	4.0	4.0
	1:30 p.m.	FOMC press conference				
10/29/2026	7:30 a.m.	Personal income (MoM)	Sep	0.2	0.3	0.2
		Personal spending (MoM)	Sep	0.6	0.6	0.9
		PCE deflator (MoM)	Sep	0.5	0.5	0.3
		PCE deflator (YoY)	Sep	3.6	3.6	3.4
		Core PCE deflator (MoM)	Sep	0.3	0.3	0.3
		Core PCE deflator (YoY)	Sep	3.1	3.1	3.0
		Initial jobless claims	24-Oct			194.0
10/30/2026	7:30 a.m.	GDP (QoQ % annualized)	3Q A	3.3	3.0	2.2
		Employment cost index (QoQ)	3Q	0.8	0.8	0.9
	8:45 a.m.	Chicago PMI	Oct	56.1	56.1	58.8

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 10/23/2026.

Disclosures

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