WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | August 7, 2026

THE WEEK'S ECONOMY AT A GLANCE

Doing more with less

This week's data reinforced a theme that has become increasingly evident throughout 2026: the economy continues to generate growth even as labor market conditions soften. July's employment report pointed to a softer labor market than previously believed, while the latest Job Openings and Labor Turnover Survey (JOLTS) data showed hiring remains subdued and worker turnover limited. At the same time, business surveys continued to signal healthy demand across both manufacturing and services, and productivity growth remained strong enough to help offset slower labor-force growth. Taken together, the reports point to an economy that is gradually cooling down, but one that continues to expand despite a slower pace of labor-force and employment growth.

What this means for business: *Economic growth appears likely to continue, but increasingly through productivity gains rather than workforce expansion, placing a greater premium on efficiency, technology investment, and labor retention.*

Quote of the week

This week's data suggests the economy is learning to grow with fewer workers. Hiring has clearly slowed, but resilient business activity and solid productivity growth are helping offset a smaller labor pool, keeping the expansion on track.

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

ECONOMIC DATA OF THE WEEK

61.4%

The labor-force participation rate fell to 61.4% in July, its lowest level in more than five years. While the weaker-than-expected employment report grabbed the headlines, a shrinking labor force is becoming an increasingly important part of the labor market story. As labor-force growth slows, the economy needs fewer new jobs each month to keep the unemployment rate stable, helping explain why modest payroll gains have not yet translated into a significant rise in unemployment.

ECONOMIC REPORT OF THE WEEK

July employment situation

The July employment report delivered a meaningful downside surprise, suggesting labor market conditions have softened more than previously believed. Nonfarm payrolls fell by 23,000 in July, while job growth in May and June was revised lower by a combined 103,000. Together, those revisions reduced the three-month average pace of payroll growth to just 20,000 jobs. At the same time, average hourly earnings rose just 0.1% during the month, slowing annual wage growth to 3.2%, while the unemployment rate edged down to 4.1%.

The headline decline in payrolls likely overstates the degree of underlying weakness. More than twice the net loss stemmed from local government education employment, which fell by -50,000 and may have been affected by seasonal adjustment distortions. Other job losses were also concentrated in a handful of industries, including leisure and hospitality, retail trade, and financial activities. Elsewhere, hiring remained modestly positive, with healthcare, construction and manufacturing continuing to add workers.

U.S. Bank Economics Research Group

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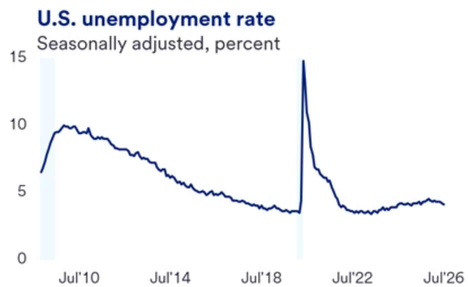
. Private payrolls increased by 30,000, suggesting hiring slowed but did not broadly contract across the economy.

As noted above, perhaps the most notable detail was another decline in labor-force participation, which fell to 61.4% and is now down 0.7% since the start of the year. As a result, the decline in unemployment likely reflects weaker labor-force growth as much as labor market resilience. Combined with slower wage growth, the report points to a labor market that continues to cool gradually rather than deteriorate sharply.

ECONOMIC REPORT OF THE WEEK

July employment situation *continued*

While the data does not fundamentally alter our broader economic outlook, it suggests labor demand is softer than previously thought and adds uncertainty to the Federal Reserve's path forward. We continue to expect a 25-basis-point rate hike in September, though Friday's report raises the bar for additional tightening beyond that.



U.S. Bank Economics, Bloomberg, U.S. Bureau of Economic Analysis (BEA)

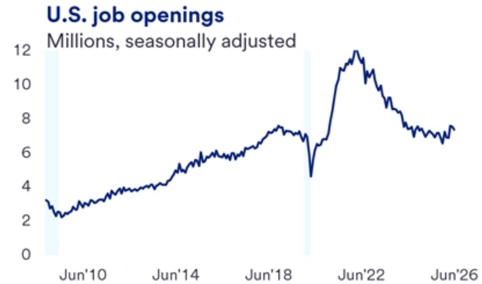
ECONOMIC TRENDS: LABOR LANDSCAPE

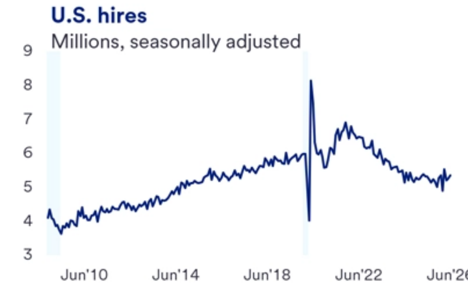
Labor market: Bending, not yet breaking

The June JOLTS data reinforced the view that the labor market remains soft, but stable. Job openings declined by 178,000 to 7.4 million, partially reversing the increase seen earlier this spring, while the hiring rate edged up. Meanwhile, layoffs and quits remained unchanged at historically low levels. Taken together, the data suggest labor demand continues to cool gradually, but there is little evidence of a wider deterioration in employment conditions.

More broadly, the underlying labor market landscape has changed little over the past year. Job openings remain close to one per unemployed worker, hiring activity remains subdued, and worker mobility remains limited.

In short, the labor market remains stuck in a low-churn environment. Employers continue to hire cautiously, workers remain reluctant to leave existing positions, but neither side is behaving as though a sharp deterioration in labor market conditions is underway.





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

One reason this low-churn environment has not translated into a materially weaker unemployment picture is that labor-force growth has slowed considerably. With labor-force participation down 0.7% since the start of the year and growth in the available workforce continuing to moderate, the economy no longer needs the same pace of hiring that was required earlier in the expansion. Our estimate of labor market breakeven employment growth has fallen to roughly 25,000 jobs per month, remarkably close to the 26,000 average pace of job growth observed over the past year. As a result, employment gains that might have appeared concerning in prior years are now broadly consistent with a labor market that is gradually cooling rather than moving rapidly toward recession.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Businesses keep growing, but hiring remains cautious

The July Institute of Supply Management (ISM) surveys pointed to an economy that continues to expand despite signs of a softer labor market. The Manufacturing Purchasing Managers' Index (PMI) rose to 55.6, its highest level since May 2022, while the Services PMI held steady at 54.1.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Businesses keep growing, but hiring remains cautious *continued*

New orders remained firmly in expansion territory across both surveys, and business activity strengthened. Taken together, the reports suggest growth remains resilient across both goods-producing and service-providing industries.

U.S. Bank Economics, Bloomberg, Institute of Supply Management (ISM)

Yet that resilience is not consistently translating into stronger hiring. Manufacturing employment returned to expansion for the first time in nearly three years, but the services employment index fell back into contraction despite stronger activity and order growth. The divergence reinforces a theme seen throughout this week's data. Businesses continue to report healthy demand but remain cautious about expanding payrolls. Instead, businesses appear increasingly able to support growth through productivity gains and existing capacity.

The surveys also suggest inflation pressures have yet to fully disappear. While manufacturing input-cost pressures eased modestly in July, price indexes remained elevated across both surveys, and respondents continued to cite tariffs, energy costs and geopolitical uncertainty as ongoing challenges. At the same time, stronger demand appears to be driving longer delivery times and elevated inventories, suggesting activity remains firm.

For the broader outlook, the ISM reports provide an important counterweight to this week's weaker employment data. Business activity continues to point toward expansion rather than contraction, even as hiring momentum softens. The result is an economy that appears capable of generating respectable growth with fewer additions to headcount than in prior years.

ECONOMIC TRENDS: BUSINESS ACTIVITY

Productivity helps fill the labor gap

The second-quarter productivity report provided another reminder that economic growth is becoming less dependent on workforce expansion. Nonfarm business productivity increased at a 1.4% annualized rate during the quarter, as output rose 1.7% while hours worked increased just 0.3%. Productivity was up 2.2% from a year earlier and has now averaged a 2.1% annualized pace since the start of the current business cycle, well above the 1.5% pace recorded during the previous expansion.

Importantly, stronger productivity is helping offset slower labor-force growth and contain labor costs. Unit labor costs remained relatively subdued during the second quarter, suggesting efficiency gains are helping businesses absorb higher compensation without a corresponding increase in inflationary pressure. More broadly, the report helps explain an increasingly important feature of today's economy: businesses continue to report solid demand and output growth, but many are meeting that demand without a significant expansion in headcount. While it remains too early to draw firm conclusions about the underlying drivers, continued investment in technology, equipment and process improvements appears to be allowing firms to do more with less labor than in prior years.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Prices and purchases

Attention this week turns to inflation and consumer spending, with July Consumer Price Index (CPI) data due Wednesday, Producer Price Index (PPI) data due Thursday, and July Retail Sales scheduled for release on Friday. Together, these reports should provide fresh insight into whether inflation pressures remain elevated and whether strong consumer demand continues to provide support across the economy.

Wednesday's CPI report will provide the latest look at inflation. We expect headline CPI to increase 0.2% in July, leaving the year-over-year rate unchanged at 3.5%. Excluding food and energy, we expect core CPI to rise 0.3% on the month, keeping the annual rate steady at 2.6%. Such an outcome would suggest that underlying inflation pressures remain elevated, with monthly price gains continuing to run at a pace that could move the Fed to act.

Producer prices will be the focus on Thursday. We expect headline PPI to rebound 0.2% in July following June's 0.3% decline, though the year-over-year rate should slow to 4.8% from 5.5%. Excluding food and energy, we expect a 0.3% monthly increase and a 4.2% annual gain. Lower energy prices likely provided some relief during the month, particularly through transportation and warehousing costs, while price increases across service categories may continue to keep underlying producer inflation elevated.

The week's final major release will be July Retail Sales on Friday. We expect headline sales to increase 0.2%, matching June's gain, while sales excluding autos are expected to rise 0.2% following a 0.2% decline in June. We also expect the retail sales control group, which feeds directly into GDP calculations, to post a healthy 0.3% increase. Though this would represent a modest step down from June's strong 0.5% gain, some of that earlier strength likely reflected temporary boosts from Amazon Prime Day promotions and World Cup-related spending activity.

Taken together, this week's reports are likely to reinforce a picture of resilient consumer spending alongside inflation that remains above the level many policymakers would find reassuring. Retail sales should continue to point to healthy household demand, while inflation data are likely to leave many Federal Reserve officials ready to act to get price pressures moving onto a more sustainable path.

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 - August 10 through August 14

Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
8/11/2026	5 a.m.	**NFIB Small business optimism index**	Jul	**97.3**	97.3	97.4
	9 a.m.	**Existing home sales (mln)**	Jul	**4.1**	4.1	4.1
8/12/2026	7:30 a.m.	**CPI (MoM)**	Jul	**0.2**	0.1	-0.4
		CPI (YoY)	Jul	**3.5**	3.4	3.5
		CPI (ex-food & energy) (MoM)	Jul	**0.3**	0.2	0.0
		CPI (ex-food & energy) (YoY)	Jul	**2.6**	2.5	2.6
	1 p.m.	**US budget deficit ($ bil.)**	Jul			-120.3
8/13/2026	7:30 a.m.	**Initial Jobless Claims**	8-Aug	**200**	202	199
		PPI (MoM)	Jul	**0.2**	0.2	-0.3
		PPI (YoY)	Jul	**4.8**	4.8	5.50
		PPI (ex-food & energy) (MoM)	Jul	**0.3**	0.3	0.20
		PPI (ex-food & energy) (YoY)	Jul	**4.2**	4.2	4.7
8/14/2026	7:30 a.m.	**Retail sales (MoM)**	Jul	**0.2**	0.2	0.2
		Retail sales ex-auto (MoM)	Jul	**0.2**	0.2	-0.2
		Retail sales control group (MoM)	Jul	**0.3**	0.3	0.5
	9 a.m.	**U. Mich. Consumer sentiment**	Aug P	**54.5**	54.1	55.2
		Business inventories (MoM)	Jun			0.3

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 8/7/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

August 13, 7:15 a.m.: Hammack (Cleveland Fed/Voter)
August 13, 7:40 a.m.: Barkin (Richmond Fed/Non-Voter)

Disclosures