



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | September 18, 2026

THE WEEK'S ECONOMY AT A GLANCE

Just a spoonful of tightening

For much of this year, the economy has continued to surprise with its resilience, and this week was no exception. Consumers kept spending through the summer, with August retail sales showing broad-based strength and reinforcing evidence that household demand remains solid. For the Federal Reserve, however, that resilience is a double-edged sword. It supports continued economic growth but could also make it more difficult for inflation pressures to fully recede. That combination helped prompt this week's first 25-basis-point increase to the policy rate since 2023. We added another rate hike to the calendar this year, with the next 25-basis-point increase in December.

What this means for business: A resilient economy remains supportive of demand, but stubborn inflation and resulting Fed tightening suggest businesses should expect elevated input and financing costs to persist.

Quote of the week

With an economy strong enough to absorb another dose of tighter policy, and inflation still above target, we expect the Fed to remove a little more accommodation before it's finished, with another 'spoonful' of tightening in December.

Beth Ann Bovino, Chief Economist,
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ECONOMIC DATA OF THE WEEK

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Sixteen of the 18 Federal Open Market Committee (FOMC) participants who submitted interest rate projections in September expect at least one additional rate hike this year, on top of this week's quarter-point increase. Twelve project one more 25-basis-point increase, while four anticipate two, leaving only two who expect the September move to be the last. As a result, September's increase is unlikely to be the Fed's last, as policymakers seek to remove accommodation and return inflation to target more quickly.

ECONOMIC REPORT OF THE WEEK

September FOMC meeting

The Federal Reserve raised the federal funds rate by 25 basis points to a target range of 3.75% to 4.00%, its first increase since 2023. The unanimous decision was widely expected following several months of resilient economic activity and persistent inflation. The statement described economic growth as "solid," domestic spending as "resilient," productivity growth as "strong," and capital investment as "robust." It also said the increase would support a "timelier return" of inflation to the Fed's 2% goal, signaling greater urgency in restoring price stability.

Updated projections reinforced the message that stronger economic conditions provide room for tighter policy. Policymakers modestly raised their forecasts for economic growth and lowered the projected unemployment rate to hold steady at 4.1% through 2029. At the same time, the projected path for interest rates shifted materially higher, with the median estimate implying another quarter-point increase this year and no reversal of that move through the end of 2027.

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At the post-meeting press conference, Chair Warsh characterized the decision to raise the policy rate as removing "a dose of accommodation," noting that he and other Committee members were "hard-pressed to describe broad financial conditions as restrictive." He emphasized that the economy appears to have strengthened while underlying inflation has not meaningfully improved, leaving the labor side of the Fed's mandate "in good shape" and shifting its predominant focus toward price stability.

ECONOMIC REPORT OF THE WEEK

September FMOc meeting *continued*

Warsh also pointed to rising commodity prices and geopolitical developments as sources of inflation pressure, emphasizing the Fed's responsibility to prevent price increases in individual sectors from broadening across the economy. Although he offered no guidance on the timing of future action, his comments reinforced the message that policymakers see room to tighten further if inflation does not improve.

ECONOMIC TRENDS: MONETARY POLICY

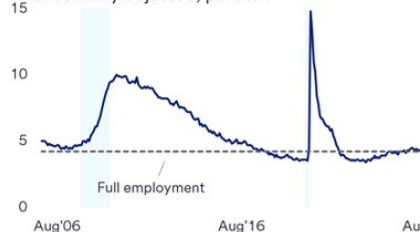
Removing accommodation, not restricting growth

The most important takeaway from the September meeting was not the rate increase itself, which we expected, but the Fed's explanation for why it was necessary. Chair Warsh's description of the decision to remove a dose of accommodation reflects the view that financial conditions remain supportive even after the increase. That framing suggests policymakers do not believe they are deliberately restraining an already fragile economy. Instead, they see the adjustment as bringing policy into better alignment with an economy that continues to show considerable momentum even as inflation remains too high.

Economic resilience is central to that assessment. Firm consumer spending, robust capital investment, and a relatively stable labor market suggest demand remains strong enough to absorb somewhat tighter policy. Importantly, the Fed's latest projections suggest policymakers believe additional restraint can be absorbed without causing a meaningful deterioration in employment. That resilience also cuts both ways. Continued economic strength could make it harder for inflation to return to target quickly, particularly if higher commodity and other input costs begin spreading more broadly through the economy.

Important disclosures provided on last page

U.S. unemployment rate
Seasonally adjusted, percent



Core PCE inflation
Excludes energy and food, annual percent change



Sources: U.S. Bank Economics, Bloomberg, U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA), Federal Reserve.

Overall, we still believe the Fed will proceed gradually. After the September increase, policymakers are likely to leave rates unchanged in October, giving them time to assess incoming inflation, labor market, and geopolitical developments before deciding how much additional restraint is needed. Barring a meaningful improvement in inflation, we expect another 25-basis-point increase in December. That would bring the federal funds rate to 4.00% to 4.25%, consistent with the median participant's year-end projection. From there, we see the Fed holding rates steady through 2027 as inflation gradually moves back toward target. In short, our baseline now includes 'two hikes and then hold,' although continued economic strength, persistent inflation, or further commodity-price pressure would raise the possibility that more tightening is ultimately needed.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Retail spending rebounds as summer demand holds firm

Consumer spending on goods rebounded sharply in August, reinforcing evidence that household demand remains an important source of economic growth. Retail and food-service sales rose 1.2% month-over-month (MoM) from July, twice the prior month's 0.5% MoM decline, while year-over-year growth accelerated to 6.0%. Overall, the report was considerably stronger than expected, although some of the headline increase reflected higher prices because retail sales are reported in nominal terms.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Retail spending rebounds as summer demand holds firm *continued*

Higher gasoline prices contributed to the increase, but they were only part of the story. Underlying spending was also strong, with the retail control group, which excludes several volatile categories and feeds more directly into estimates of consumer spending in GDP, rising 1.4% MoM (5.6% YoY). Online sales led the rebound as July's calendar-related weakness reversed, while gains across restaurants, electronics and appliance stores, sporting goods retailers, and several other categories suggest the improvement extended beyond any one area.

The August rebound suggests July's decline was largely temporary rather than the beginning of a sustained consumer pullback. Adjusting for goods inflation, we estimate real retail sales rose 0.7% in August and grew at a 7.3% annualized pace over the past three months, suggesting the recent strength reflects more than higher prices. While questions remain about how long consumers can maintain this pace amid higher energy prices and more limited real-income growth, household spending continues to support solid economic growth. For monetary policy, that resilience could make it more difficult for inflation pressures to fully recede.



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

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ECONOMIC TRENDS: HOUSING SECTOR

Housing remains an exception to broader economic resilience

While much of the broader economy has proven resilient to higher interest rates, housing remains a notable exception. New residential construction weakened in August, with housing starts falling 2.6% MoM to a seasonally adjusted annual rate of 1.28 million units, while building permits declined 2.7% to 1.39 million. The underlying details were somewhat better than the headline suggests, however, as the decline in starts was concentrated in volatile multifamily construction, while single-family rebounded from a weak July. Still, declines in both single- and multifamily permits last month suggest builders remain cautious about future construction.



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

Other housing indicators point to similarly subdued conditions. Builder sentiment fell to 32 in September, with nearly two-thirds of builders offering sales incentives and more than one-third cutting prices to attract buyers. Pending home sales eked out a small increase in August but remained 4.7% below year-ago levels, while mortgage applications declined again as higher borrowing costs weighed on both home purchases and refinancing activity. Together, these measures suggest housing demand remains constrained even as the month-to-month construction data fluctuate.

ECONOMIC TRENDS: HOUSING SECTOR

Housing remains an exception to broader economic resilience *continued*

Mortgage rates remain a central part of the story. After stabilizing around 6.60%–6.80% through much of the spring and summer, the average rate on a 30-year fixed mortgage has recently moved back toward 7% alongside higher long-term Treasury yields. At the same time, builders continue to contend with elevated construction/financing costs and labor shortages. With affordability weighing on buyers and higher costs restraining builders, we expect residential construction to remain a drag on economic growth in the near term.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: A quieter week after the Fed

The economic calendar is relatively quiet this week following last week's Federal Reserve meeting, with August New Home Sales on Thursday and Durable Goods Orders on Friday among the few major reports on tap. The week will also feature a number of appearances from Fed officials, offering policymakers an early opportunity to provide additional context around the Committee's decision to raise rates by 25 basis points at its September meeting.

Thursday's **New Home Sales** report is expected to reinforce the ongoing weakness in the housing market. We expect sales to edge up to a 610,000-unit seasonally adjusted annual rate in August from 607,000 in July. Despite continued use of discounts and incentives by builders, elevated mortgage rates, high construction costs, and poor affordability are likely to continue weighing on activity.

On Friday, we expect headline **Durable Goods Orders** to decline 0.2% MoM following a strong 1.1% increase in July.

However, the details of the report are expected to be considerably stronger, with orders excluding transportation rising 0.5%. We also expect a 0.5% increase in core capital goods orders (nondefense excluding aircraft), an important forward-looking gauge of business equipment investment. Continued strength in core orders would reinforce expectations for another solid quarter of business investment.

Fed communications will also be in focus following last week's unanimous decision to raise the federal funds rate by 25 basis points to a target range of 3.75% to 4.00%. A series of **remarks from Fed officials** could provide additional insight into the rationale behind the September move and, more importantly, how policymakers are thinking about the need for further tightening.

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 - September 21 through September 25						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
9/23/2026	8:45 a.m.	S&P Global US Services PMI	Sep P	56.0	56.0	56.5
		S&P Global US Composite PMI	Sep P			56.0
		S&P Global US Manufacturing PMI	Sep P	53.6	53.6	53.9
9/24/2026	7:30 a.m.	Current account balance	2Q			-226.8
		Initial Jobless Claims	19-Sep	205		196.0
		New home sales (000)	Aug	610	615.0	607.0
9/25/2026	7:30 a.m.	Durable goods orders (MoM)	Aug P	-0.2	-0.3	1.10
		Durable goods ex Transportation (MoM)	Aug P	0.5	0.5	0.4
		Capital goods orders nondefense ex. Aircraft	Aug P	0.5	0.5	0.0
		U. Mich. Consumer sentiment	Sep F	47.6	47.8	47.8

Sources: Bloomberg, U.S. Bank Economics, Consensus estimates as of Friday, 9/18/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

Sept. 21, 5:30 a.m.: Goolsbee (Chicago Fed/Non-Voter)
Sept. 22, 9:05 a.m.: Williams (New York Fed/Voter)
Sept. 22, 9:20 a.m.: Jefferson (Board of Governors/Voter)
Sept. 22, noon: Barkin (Richmond Fed/Non-Voter)
Sept. 23, 9:05 a.m.: Barr (Board of Governors/Voter)
Sept. 24, 7 a.m.: Barkin (Richmond Fed/Non-Voter)
Sept. 24, 7:50 a.m.: Hammack (Cleveland Fed/Voter)
Sept. 24, 9:10 a.m.: Paulson (Philadelphia Fed/Voter)
Sept. 25, 4:15 a.m.: Williams (New York Fed/Voter)
Sept. 25, 1 p.m.: Hammack (Cleveland Fed/Voter)

Disclosures

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