WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | September 25, 2026

THE WEEK'S ECONOMY AT A GLANCE

Higher for longer ... and longer

One of the defining themes of 2026 has been an economy that continues to withstand higher borrowing costs. This week offered yet another example. Strong business surveys pointed to accelerating growth, durable goods data showed business investment remains healthy, and Federal Reserve officials continued to warn that inflation risks have not fully subsided. The result was another jump in Treasury yields, reflecting not only expectations for additional policy tightening, but a growing belief that stronger growth, persistent inflation pressures, and robust investment demand may keep long-term interest rates elevated for years to come.

What this means for business: *Strong demand and investment opportunities remain, but businesses should prepare for borrowing costs to stay higher for longer as resilient growth and persistent inflation pressures keep upward pressure on interest rates.*

Quote of the week

The rise in Treasury yields reflects more than expectations for the Fed's next move. Investors are increasingly reassessing what constitutes an appropriate level of interest rates in an economy supported by strong investment demand, persistent inflation pressures, and continued resilience in growth.

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

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ECONOMIC DATA OF THE WEEK

5.20%

The 10-year U.S. Treasury yield topped 5.20%, its highest level in almost 20 years, as investors reassessed how high interest rates may need to remain in an economy that continues to outperform expectations. September's strong business surveys provided the latest catalyst, reinforcing expectations for additional monetary policy tightening while renewed energy and inflation concerns added further pressure.

That said, the increase appears to reflect more than the outlook for the Fed's next few decisions. Strong AI-related investment demand, rising Treasury and corporate issuance, and heightened fiscal and inflation uncertainty are pushing real yields and the term premium higher. The result is a growing possibility that the economy's long-run interest-rate structure has shifted upward, leaving the 10-year yield more likely to remain elevated even after inflation and monetary policy eventually normalize.

ECONOMIC REPORT OF THE WEEK

Treasury auction results

This past week's Treasury auctions drew weaker-than-expected demand, highlighting the growing challenge of financing federal borrowing needs in an already difficult bond-market environment. The 5-year sale produced a particularly large yield concession, while the 7-year auction also cleared above prevailing market levels and attracted softer indirect demand. Although stronger economic data and comments from policymakers were the immediate catalysts behind the rise in yields, the auction results suggest investors are becoming more selective about absorbing Treasury supply and duration risk.

That said, the results do not signal an absence of buyers. Rather, they suggest that demand increasingly depends on price, with investors requiring higher yields to compensate for fiscal, inflation, and policy uncertainty. That dynamic contributes to a higher term premium and helps explain why longer-term borrowing costs may remain elevated even after the outlook for near-term Fed policy becomes clearer.

U.S. Bank Economics Research Group

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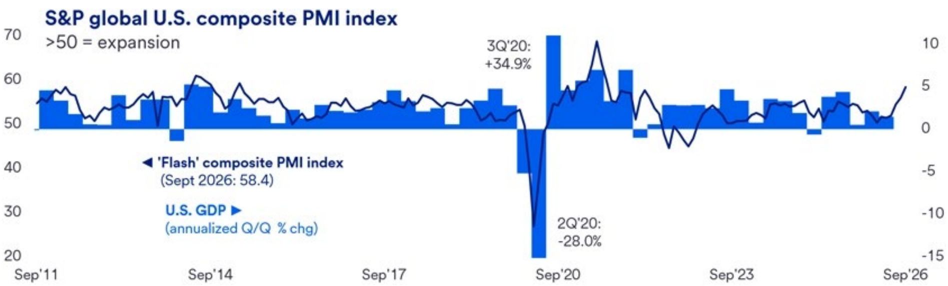
ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Business activity: Resilience meets capacity constraints

The latest S&P Global purchasing managers' indexes (PMIs) suggest economic momentum strengthened further in September. The composite output index surged to 58.4, its highest reading in more than five years, as activity accelerated across both manufacturing and services. Businesses reported stronger demand, rising production, and growing new orders, leaving the survey consistent with an economy that entered the fall with considerably more momentum than many expected at the start of the year. More broadly, the results reinforce a theme that has emerged repeatedly in recent economic releases: higher borrowing costs have done little to materially restrain demand.



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

The survey also painted an increasingly firm picture of the labor market. Employment expanded at the fastest pace in more than four years as businesses added staff to keep up with rising workloads and growing order backlogs. Yet hiring has not been sufficient to fully alleviate capacity pressures. Businesses reported worsening supplier delays, rising backlogs of unfinished work, and continued difficulty finding qualified workers, suggesting demand is beginning to outpace available capacity in parts of the economy.

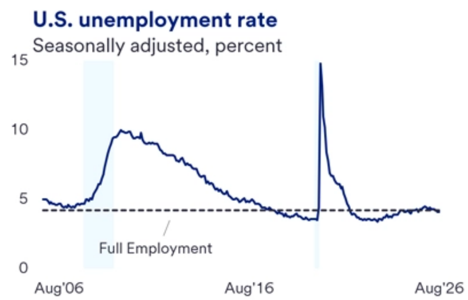
Those strains are also beginning to show up in pricing measures. Input costs increased at the fastest pace since 2022, reflecting higher energy, transportation, and labor-related expenses. While one month's survey does not establish a trend, the results suggest inflation pressures may prove more persistent if demand continues to outpace available capacity.

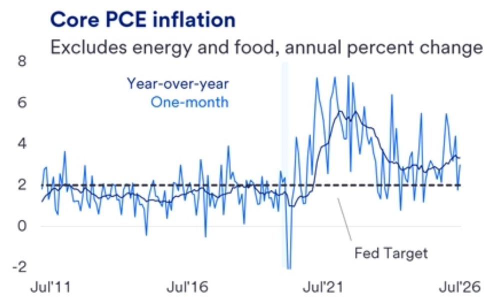
Taken together, the September PMI data reinforce the economy's remarkable resilience. Historical comparisons from S&P Global suggest the survey data are consistent with growth running near a 4% annualized pace for the third quarter and roughly 5% in September, with strong demand, robust hiring, and growing capacity constraints also highlighting why inflation risks have not fully disappeared. As a result, the report helps explain both the recent rise in Treasury yields and increased market openness to additional Fed tightening.

ECONOMIC TRENDS: MONETARY POLICY

FedSpeak: Inflation remains the priority

Federal Reserve officials used their first full week of public comments following the September meeting to reinforce the rationale for the FOMC's recent rate hike. Kansas City Fed President Schmid, for example, argued that inflation pressures extend well beyond energy, noting that a broad range of goods and services continue to experience price increases inconsistent with the Fed's mandate. Likewise, Boston's Collins said a somewhat more restrictive policy stance would help ensure inflation returns durably to target and suggested the labor market is on sufficiently solid footing for monetary policy to focus primarily on price stability.





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

ECONOMIC TRENDS: MONETARY POLICY

FedSpeak: Inflation remains the priority *continued*

Several officials also emphasized the risk that inflation becomes more persistent when supply shocks occur repeatedly rather than in isolation. Richmond's Barkin pointed to tariffs, the conflict in the Middle East, and AI-related supply pressures as factors that may take time to fade, while Cleveland's Hammack warned that a sequence of shocks increases the risk that an inflationary mindset becomes entrenched. New York's Williams added that policymakers cannot simply look through persistent supply shocks, even though he does not view the labor market as a source of inflationary pressure. Together, the remarks suggest officials are focused less on any single disruption and more on preventing recurring shocks from becoming embedded in broader inflation dynamics.

Perhaps the clearest takeaway from the week's comments was that policymakers remain open to additional tightening if inflation fails to improve. St. Louis Fed President Musalem said additional rate increases may be needed and suggested policy could still be stimulating the economy even after the recent hike. Fed Governor Barr likewise indicated that further policy adjustments are likely to be necessary, while Philadelphia's Paulson said modest additional tightening could be warranted if inflation evolves as expected.

Although officials stopped short of committing to a predetermined path, the week's remarks left the door wide open to further restraint and reinforced the view that policymakers want clearer evidence inflation is returning sustainably to 2% before declaring the job complete. That message likely contributed to the rise in Treasury yields, as investors reassessed both the likelihood of additional rate increases and how long policy may need to remain restrictive. Current market pricing implies continued tightening through late 2027, with three to four additional rate increases priced in by next October.

ECONOMIC TRENDS: BUSINESS ACTIVITY

Business investment holds firm

August's durable goods report offered another reminder that the headline can obscure the underlying investment story. New orders were virtually unchanged, as declines in aircraft, motor vehicles, and other transportation equipment offset gains elsewhere. Beneath the surface, however, nondefense capital goods orders excluding aircraft, a closely watched indicator of business investment plans, advanced 1.6% month-over-month (MoM). Core capital goods shipments similarly rose 0.6% MoM, suggesting equipment investment retained considerable momentum through the middle of the third quarter.

The strength was reasonably broad, with higher demand for machinery, primary metals, electrical equipment, and computers and related products. These results are consistent with the AI-related buildout continuing to support capital spending, although technology was not uniformly strong and some investment demand is being met through imported equipment. Moreover, these figures are reported in current dollars, meaning higher capital goods prices may account for part of the increase.

ECONOMIC TRENDS: BUSINESS ACTIVITY

Business investment holds firm *continued*

Overall, the report points to continued strength in business investment. Strong core orders and a growing backlog provide manufacturers with a healthy pipeline of future activity, even as some of the most AI-sensitive categories showed signs of stabilization following an exceptionally strong run. For now, capital spending remains an important source of economic resilience, though higher borrowing costs and an eventual moderation in AI-related investment could temper momentum over time.

ECONOMIC TRENDS: ECONOMIC COMMENTARY

From the desk of the Chief Economist: "Inflation: The 162,000-job question"

It was initially reassuring to see August nonfarm job gains bounce back to 162,000, just over the post-war pace of 128,000 per month and much stronger than average payroll gains of just 49,000 per month in 2025. So, what's the catch?

The wage outlook hinges less on headline payroll growth than on whether labor supply expands alongside hiring. This is not the case today. This resource (labor) has been in sharp decline, largely from demographic changes: baby boomers and record-breaking early retirees, a birth rate in fast decline and out-migration.

Since the post-World War II baby boom, the labor supply has shrunk as the population ages. Record-breaking early retirements (age 55 and over) further deplete the labor force.

Since 1972, the U.S. birth rate has been in fast decline, averaging 1.9, below the 2.1 birth replacement level needed to maintain a stable population without immigration. In fact, the Congressional Budget Office (CBO) predicts that without immigration, the population will begin to shrink by 2034.

That increases wages. I am not one to complain about a larger paycheck or more jobs. But higher wages lead to higher prices for products as businesses pass through costs. Which then leads the Fed to further tighten policy.

As a Phillips-curve-style rule of thumb, nominal wage growth equals trend productivity growth plus expected target inflation (2%) augmented by a labor market tightness measure. In other words, today's slower labor-force growth means even historically normal payroll gains could create more inflation pressure than in earlier decades.

If the clock was turned back and payrolls were instead growing at a normal pace of about 125,000, while the labor share and productivity levels didn't change, what would happen? Instead of a 4.1% unemployment rate in August, it would be closer to 3.0%, leading to higher wages and more spending at even higher prices.

With the Fed stepping in, once again, to take that punchbowl away!

You can always find Beth Ann Bovino's commentaries here> .

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Both sides of the mandate in focus

A busy economic calendar this week will provide important updates on both sides of the Federal Reserve's dual mandate. August Job Openings and Labor Turnover Survey (JOLTS) data arrive on Tuesday, followed by Personal Income and Spending and Personal Consumption Expenditures (PCE) inflation on Wednesday. The week concludes with the September Employment Report on Friday, rounding out a consequential week of data on inflation, consumer demand, and labor market conditions as policymakers consider the path of monetary policy following their September rate hike.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: Both sides of the mandate in focus *continued*

Tuesday's **JOLTS report** is expected to show job openings edging down to 7.225 million in August from 7.271 million in July. A modest decline would remain consistent with a labor market that has cooled slightly but remains broadly stable.

On Wednesday, we expect the **PCE price index** to rise 0.4% MoM in August, up from 0.2% in July, while core PCE inflation likely increased 0.3% for a second consecutive month. The release will also incorporate the Bureau of Economic Analysis's annual update to the National Economic Accounts, including revisions to historical PCE data. Methodological changes affecting several PCE categories could lower previously reported core inflation, though such revisions would not necessarily indicate an improvement in the current inflation trend. Meanwhile, nominal personal spending likely surged 0.9% in August, which would translate into roughly 0.5% growth in real spending. Personal income is expected to rise 0.5%, supporting consumer spending in the third quarter.

The week's final major release arrives Friday, with the **September Employment Report**. We expect nonfarm payrolls to increase by 80,000, below consensus expectations of 100,000, while the unemployment rate holds steady at a still-low 4.1%. Some of August's strength reflected hiring in leisure and hospitality that we do not expect to be repeated, while state and local government hiring could also soften. A report broadly in line with our forecast would remain consistent with a labor market that is stable but not overheating, providing little impetus on its own for the Federal Reserve either to accelerate or back away from further tightening.

Taken together, this week's reports should provide a comprehensive update on inflation, consumer demand, and labor market conditions as policymakers assess whether and how much additional monetary policy tightening will be needed.

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 28 through October 2

Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
9/29/2026	8 a.m.	S&P/Case-Shiller home prices (MoM)	Jul	**0.2**	0.2	0.2
		FHFA home prices (MoM)	Jul			0.0
	9 a.m.	Conf. Board Consumer Confidence	Sep	**89.4**	90.0	89.4
		JOLTS Job Openings (000)	Aug	**7225**	7225	7271
9/30/2026	7:15 a.m.	ADP employment change (000)	Sep	**60.0**	70.0	38.0
	7:30 a.m.	Retail Inventories (MoM)	Aug			0.8
		Personal income (MoM)	Aug	**0.5**	0.5	0.4
		Personal spending (MoM)	Aug	**1.0**	0.9	0.2
		PCE Deflator (MoM)	Aug	**0**	0.4	0.2
		PCE Deflator (YoY)	Aug	**3.7**	3.7	3.70
		Core PCE Deflator (MoM)	Aug	**0.3**	0.3	0.3
		Core PCE Deflator (YoY)	Aug	**3.3**	3.3	3.3
		GDP final update (QoQ %)	2Q T	**1.5**	1.5	1.5
		Advance Goods Trade Balance	Aug	**-114.9**	-113.9	-118.9
		Wholesale Inventories (MoM)	Aug P			1.3
	8:45 a.m.	Chicago PMI	Sep	**51.2**	51.2	47.1
10/1/2026	7:30 a.m.	Initial Jobless Claims	26-Sep			197.0
	8:45 a.m.	S&P Global US Manufacturing PMI	Sep F			57.0
	9 a.m.	ISM manufacturing	Sep	**54.8**	55.0	54.6
		Construction spending (MoM)	Aug	**0.1**	0.1	-0.5
10/2/2026	7:30 a.m.	Employment report (000)	Sep	**80**	100	162
		Unemployment rate (%)	Sep	**4.1**	4.1	4.1
	9 a.m.	Factory orders (MoM)	Aug	**-0.1**	-0.1	0.9
		Durable goods orders (MoM)	Aug F	**-0.3**	-0.3	1.1
		Durable goods ex Transportation (MoM)	Aug F	**0.6**	0.6	0.4
		Capital goods orders nondefense ex. Aircraft	Aug F	**0.6**	0.6	0.0

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 9/25/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

Sept. 28, 12:30 p.m.: Barkin (Richmond Fed/Non-Voter)
Sept. 29, noon: Goolsbee (Chicago Fed/Non-Voter)
Sept. 29, 1 p.m.: Williams (New York Fed/Voter)
Sept. 30, 12:30 p.m.: Barkin (Richmond Fed/Non-Voter)
Sept. 30, 2:25 p.m.: Cook (Board of Governors/Voter)
Sept. 30, 4:10 p.m.: Goolsbee (Chicago Fed/Non-Voter)
Sept. 30, 5 p.m.: Kashkari (Minneapolis Fed/Voter)

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Sept. 30, 4:10 p.m.: Goolsbee (Chicago Fed/Non-Voter)
Sept. 30, 5 p.m.: Kashkari (Minneapolis Fed/Voter)
Oct. 1, 8:05 a.m.: Barkin (Richmond Fed/Non-Voter)
Oct. 1, 2:30 p.m.: Cook (Board of Governors/Voter)
Oct. 1, 5:45 p.m.: Logan (Dallas Fed/Voter)

Disclosures

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