



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | May 15, 2026

THE WEEK'S ECONOMY AT A GLANCE

Energy shock complicates Fed transition

Incoming data this week point to an increasingly complicated macro backdrop, as a renewed, energy-driven pickup in inflation meets an evolving policy landscape. The April Consumer Price Index (CPI) and Producer Price Index (PPI) both surprised to the upside, signaling that price pressures are not only reaccelerating but beginning to broaden again, even as growth indicators suggest the economy remains on stable – if uneven – footing. Consumer spending appears resilient in nominal terms, though real momentum is softening, while housing activity continues to stabilize at subdued levels and factory production posted another modest increase. Against that backdrop, the confirmation of Kevin Warsh as Federal Reserve Chair introduces a new layer of policy uncertainty at a moment when markets are shifting toward a higher-for-longer rate outlook, underscoring a more fragile balance between inflation risks and economic stability.

What this means for business: For businesses, a more persistent inflation environment, combined with a more prolonged period of elevated interest rates, points to sustained cost pressures and tighter financial conditions.

Quote of the week

Core inflation measures show first signs of the energy pass-through into transport prices (airfares), bringing summer vacation trips closer to home as 'keeping it local' becomes the new vacation trend.

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



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ECONOMIC DATA OF THE WEEK

4.5%

The 10-year U.S. Treasury yield rose above 4.5% for the first time in nearly a year, up 50 basis points since the onset of the Iran conflict. This mirrors similar rises in government bond yields in other advanced economies, reflecting a repricing of inflation risk. In the U.S., this week's firmer April CPI and PPI data reinforced expectations of more persistent price pressures. That shift is also feeding through to mortgage rates and broader financing costs, creating a more challenging backdrop for rate-sensitive activity even as overall economic conditions remain stable.

ECONOMIC REPORT OF THE WEEK

A new Fed chair – and a more complex policy backdrop

The confirmation of Kevin Warsh as Federal Reserve Chair marks a key leadership transition, arriving at a time when the policy outlook is being reshaped by renewed inflation pressures rather than operating signals themselves. Markets have significantly repriced the expected rate path in response to firmer inflation data, with fed funds futures now pointing to a potential 25 basis point hike in early 2027 – reversing expectations from late February for multiple rate cuts. That shift has pushed short-end yields sharply higher, with the 2-year U.S. Treasury rising nearly 50 basis points to around 4.00% this week, its highest level since mid-2025. Against this backdrop, the change in Fed leadership introduces an additional layer of uncertainty around how policy will balance persistent inflation risks with the broader economic outlook.

U.S. Bank Economics Research Group

Beth Ann Bovino, Chief Economist

Ana Luisa Araujo, Senior Economist

Matt Schoeppner, Senior Economist

Adam Check, Economist

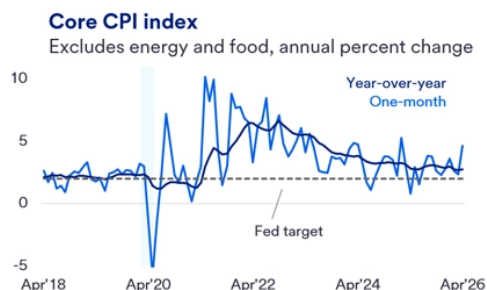
Andrea Sorensen, Economist

ECONOMIC TRENDS: PRODUCERS AND CONSUMER PRICES

April showers, inflation powers

April's inflation data reinforced a challenging message, with the energy shock still driving headline prices higher, and the underlying picture beginning to firm at the margin. Headline CPI rose 0.6% month-over-month (MoM), 3.8% year-over-year (YoY), with energy again doing much of the lifting – consistent with what households are experiencing at the pump. Core CPI also stepped up to 0.4% MoM (2.8% YoY), signaling that inflation is not purely a headline story this month.

Beneath the surface, part of the increase in core inflation reflected a temporary boost to shelter inflation tied to earlier data disruptions, which should fade as the measurement effects unwind in coming months. Outside of housing, 'Supercore' inflation (core services excluding housing) remained mixed, with additional evidence of energy-related spillover in transportation-sensitive categories such as airfares, alongside a temporary firming in financial services tied to seasonal tax-related pricing. Core goods inflation, by contrast, remained relatively subdued, with pockets of firmness in areas such as apparel offset by continued weakness in vehicle-related categories. Taken together, the details suggest that while inflation remains uneven, underlying price pressures are beginning to firm modestly beyond headline-sensitive components.



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

Important disclosures provided on last page

The producer price data added an important caution flag for the near-term pipeline. Final demand PPI surged 1.4% in April (6.0% YoY), with strength spanning both goods and services.

Notably, higher trade margins and a sharp rise in transportation and warehousing services pointed to continued pass-through risk if businesses sustain pricing power and higher costs persist. Even excluding foods, energy and trade services, producer prices rose 0.6% MoM, underscoring that pressures were not confined to headline energy alone.

Bottom line: April's CPI and PPI reports together suggest inflation risks are reintensifying, led by energy but reinforced by firmer pipeline pressures. For businesses, that combination raises the odds of sustained cost pressure and a slower return to a more normal pricing environment. For consumers, it matters because inflation is once again outpacing wage gains – Bureau of Labor Statistics (BLS) reports real average hourly earnings fell -0.5% MoM in April (-0.3% YoY) – potentially testing demand even as the broader economy remains on stable – if uneven – footing.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Retail sales: Solid on the surface, softer in real terms

April retail sales extended the consumer's run of steady nominal gains, but the report again underscored how much of the headline strength is being carried by higher prices – especially at the pump. Total retail and food services sales rose 0.5% MoM in April (up 4.9% YoY), cooling from March's revised 1.6% surge but still consistent with a consumer sector that remains active. As in March, higher fuel costs played an outsized role, with gasoline station receipts up 2.8% MoM, helping lift the headline.

ECONOMIC TRENDS: BUSINESS CYCLE INDICATORS

Retail sales: Solid on the surface, softer in real terms *continued*

Beneath the headline, the report showed a constructive – if uneven – pattern across categories. Several areas posted solid gains, including electronics and appliances, sporting goods, and non-store (mostly online) retailers, while the only services category in the report – restaurants – also rose, pointing to continued resilience in discretionary outlays. At the same time, consumers appeared more selective in rate-sensitive or more discretionary goods, with declines in furniture, apparel and department stores.

From a macro tracking perspective, the GDP-relevant details were steady. The ‘control group’ also rose 0.5% MoM (5.7% YoY), reinforcing that underlying goods spending remained supportive early in the second quarter even as the pace normalizes from March’s price-boosted jump. That said, with inflation reaccelerating this spring, nominal sales are increasingly overstating volume. Using CPI for goods, our estimates suggest real total retail sales fell by -0.3% MoM for a second straight month in April – consistent with the view that price effects, not stronger unit demand, are doing much of the work in the headline.

Bottom line: April retail sales reaffirm consumer resilience in nominal terms, but the combination of higher gasoline prices and firmer inflation is starting to show up in softer real momentum and more selective spending patterns. For the broader outlook, that mix supports continued growth but argues for a more measured trajectory – especially if elevated energy costs persist and keep squeezing real purchasing power.



ECONOMIC TRENDS: HOUSING SECTOR

Home sales: Stuck in neutral

Existing home sales continued to disappoint in April, coming in below expectations with a modest 0.2% month-over-month increase, leaving activity at a subdued annualized pace of 4.02 million units. Through the first four months of the year, sales remain slightly below the same period a year ago and mark the weakest start to a year since 2009. While affordability is still improved relative to a year ago, the conflict in Iran – and the associated rise in energy prices, inflation and interest rates – is likely to keep many potential buyers on the sidelines.

Despite weak sales volumes, the report pointed to relatively balanced market conditions. Home prices were broadly stable, with the median sales price at \$417,700 in April, up 0.9% from a year earlier and consistent with other measures showing stalled nominal price growth. While inventory remains below prepandemic norms, the slower pace of sales has pushed months’ supply to 4.4 – more in line with levels typically seen during economic expansions. Together, these dynamics suggest that housing demand has not collapsed, but rather remains constrained by affordability challenges and rate-lock effects.

ECONOMIC TRENDS: HOUSING SECTOR

Home sales: Stuck in neutral *continued*

High-frequency indicators continue to point to tentative signs of stabilization in the housing sector. The Mortgage Bankers Association’s weekly mortgage applications index, for example, has risen in three of the past four weeks. However, that improvement may prove short-lived if energy prices remain elevated or begin to feed more broadly into inflation and inflation expectations, pushing longer-term rates higher and weighing further on affordability.



U.S. Bank Economics, National Association of Realtors (NAR), Mortgage Bankers Association (MBA), Bloomberg

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we’re watching this week: FOMC minutes in focus amid limited fresh data

With a relatively light data calendar, this week’s focus will center on policy signals and a limited set of updates on housing and consumer sentiment. Wednesday’s release of the April Federal Open Market Committee (FOMC) meeting minutes will be the primary highlight, alongside April housing starts and building permits on Thursday and the final May reading of University of Michigan consumer sentiment on Friday.

Wednesday’s **FOMC minutes** will be closely scrutinized following one of the most divided meetings in recent decades. While the Committee held rates steady, the decision featured four dissents –

though notably only one dissenter supported a different policy action. The remaining dissenters instead pushed back against the inclusion of “easing bias” language in the statement, preferring a more neutral stance in light of persistent inflation pressures. The minutes should provide further clarity on how deep these divisions run, how much discussion centered on the stagflationary risks associated with the Iran-driven energy shock, and whether any participants raised the possibility of renewed tightening – a signal that would carry clear hawkish implications.

On Thursday, **April housing starts and building permits** will provide an updated look at residential construction following a volatile first quarter. March data showed a sharp rebound in starts to a more than one-year high, even as permits declined notably, pointing to softer activity ahead. We expect a meaningful pullback in starts alongside continued weakness in permits, reflecting a combination of elevated mortgage rates, rising construction costs and softer builder sentiment. Some of March’s strength also likely reflected catch-up from earlier weather-related disruptions, suggesting it will be difficult to sustain that pace. More broadly, higher input costs and ongoing labor shortages continue to act as a drag on new development.

Rounding out the week, Friday brings the final May reading of the **University of Michigan Consumer Sentiment survey**. The preliminary release showed sentiment falling to 48.2 – an all-time low in data dating back to 1952. The decline was driven by a sharp deterioration in current conditions amid elevated gasoline prices and broader cost pressures. With sentiment already at record lows, any further downtick would push the index deeper into historic territory, though modest revisions higher are possible. Even so, sentiment is unlikely to improve meaningfully in the near term while energy prices remain elevated.

ECONOMIC TRENDS: THE WEEK AHEAD

Data and reports we're watching this week: FOMC minutes in focus amid limited fresh data *continued*

Taken together, this week's releases are likely to reinforce a cautious but steady macro narrative. While hard data remain sparse, the FOMC minutes should highlight a more fragmented policy backdrop, with growing divergence around the balance of risks. At the same time, weak consumer sentiment and a constrained housing sector suggest that higher prices and tighter financial conditions continue to weigh on more interest-sensitive and confidence-driven segments of the economy, even as broader activity holds up.

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 - May 18 through May 22						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
5/18/2026	9 a.m.	NAHB housing index	May	34.0	34.0	34.0
	3 p.m.	TIC flows (\$ bil.)	Mar			184.5
5/19/2026	9 a.m.	Pending home sales (MoM)	Apr	1.6	1.6	1.5
5/20/2026	1 p.m.	FOMC minutes	29-Apr			
5/21/2026	7:30 a.m.	Initial Jobless Claims	16-May	208.0		211.0
		Philly Fed manufacturing	May	15.0	15.0	26.7
	8:45 a.m.	Housing starts (000)	Apr	1420	1420.0	1502.0
		Building permits (000)	Apr P	1380.0	1380.0	1363.0
		S&P Global US Services PMI	May P	51.3	51.3	51.0
		S&P Global US Composite PMI	May P			51.7
		S&P Global US Manufacturing PMI	May P	53.6	53.6	54.5
5/22/2026	9 a.m.	U. Mich. Consumer sentiment	May F	48.0	48.2	48.2

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 5/15/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

May 19, 7 a.m.: Waller (Board of Governors/Voter)

May 19, 6 p.m.: Paulson (Philadelphia Fed/Voter)

May 20, 8:15 a.m.: Barr (Board of Governors/Voter)

May 22, 9 a.m.: Waller (Board of Governors/Voter)

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