



WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economics Research Group | October 2, 2026

THE WEEK'S ECONOMY AT A GLANCE

Economic fundamentals remain resilient

This week's economic data provided further evidence that the economy remains resilient despite pockets of moderation. The labor market remains in a low-hire, low-fire equilibrium, while rising participation suggests workers remain engaged. Consumer spending maintained its momentum, supported by stronger-than-previously-reported income growth, even as households became more pessimistic about the outlook. Resilient consumer activity and a stable labor market reinforce the Federal Reserve's continued focus on price stability and are consistent with our expectation for an additional 50 basis points (bps) of tightening over the next six months. However, weaker-than-expected payroll growth and cooler-than-expected annual inflation readings mean that policymakers will likely sit on the sidelines in October. This will give them time to gather more economic data before they raise rates in December, as we expect.

What this means for business: Economic conditions remain supportive of continued growth, but businesses should expect interest rates to remain a meaningful constraint as the Fed prioritizes bringing inflation back toward target



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61.8%

The labor force participation rate rose to 61.8% in September, completing a round trip back to its May level and fully reversing its summer decline. The unexpected rebound in labor supply has contributed to upward pressure on the unemployment rate but also points to continued worker engagement amid a resilient labor market. While participation is still expected to trend lower over the coming years as the population ages, strong economic growth could keep more workers attached to the labor force and partially offset these demographic headwinds.

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September employment situation

In contrast to the rebound in participation, the September employment report also showed signs of moderation. Nonfarm payrolls rose just 29,000 month-over-month (MoM) – below the U.S. Bank estimate of 80,000 and consensus of 100,000 – alongside downward revisions to prior months. The unemployment rate edged up to 4.2% from 4.1% in August on higher participation, while wage growth was subdued at just 0.1% MoM (vs. 0.3% expected). At 3.0% year-over-year (YoY), annual wage growth now sits below most measures of headline inflation. These weaker-than-expected portions of the report provide reason for the Fed to take a ‘wait-and-see’ approach in October.

Taken as a whole, however, the report remains consistent with a broadly balanced labor market. Three-month average payroll growth stands at 51,000 – above estimates of the pace needed to keep the unemployment rate steady. Moreover, September’s increase in unemployment reflected higher labor force participation rather than falling employment, with the household survey showing solid job gains. Average weekly hours also rose, providing further evidence that labor demand remains solid.

More broadly, the report adds to evidence that labor-market conditions have stabilized. Hiring has slowed considerably from earlier in the expansion, but unemployment remains low, layoffs remain limited, and wage pressures continue to ease. For employers, the combination of improving labor availability and moderating wage growth suggests labor costs are becoming more manageable, even as demand for workers remains healthy. With the labor market in balance, inflation is likely to remain the more important consideration for the policy outlook.

Quote of the week

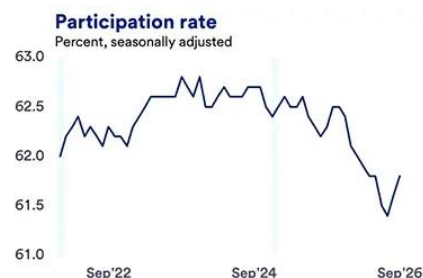
“‘Resilient’ is the new ‘strong’: the economy is still moving forward, just at a more measured pace.”

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

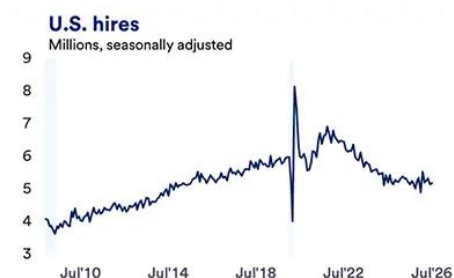
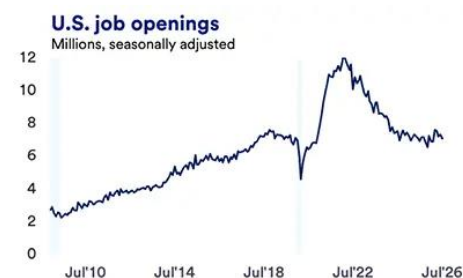
Economic trends: Labor landscape

Labor market: Steady, but stuck in low gear

The August Job Openings and Labor Turnover Survey (JOLTS) reinforced a theme that has become increasingly evident across the labor market: activity remains subdued, but conditions remain stable. Job openings edged down to 7.1 million during the month, while hiring, quits, and layoffs were little changed. The report continued to depict a relatively low-turnover labor market, with employers remaining cautious about expanding payrolls and workers remaining reluctant to voluntarily change jobs. Meanwhile, layoffs remained historically low, underscoring that businesses continue to retain workers despite a slower pace of hiring.



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



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The broader picture remains one of balance rather than deterioration.

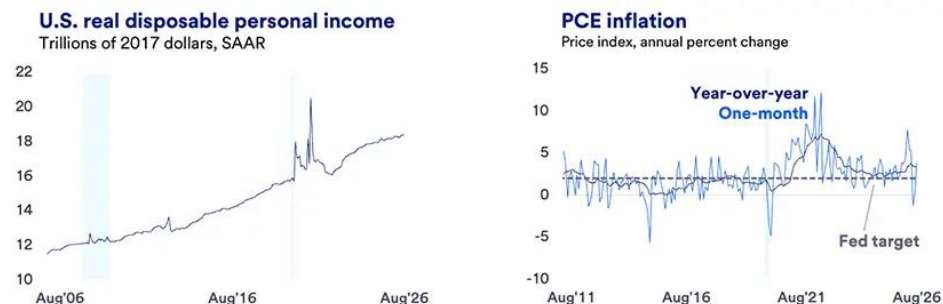
There were roughly as many job openings as unemployed workers in August, a ratio that has held remarkably steady over the past year and remains consistent with a labor market operating near equilibrium. Hiring activity continues to exceed separations, while layoffs remain contained. Taken together, the data suggest labor demand has cooled from the exceptionally strong conditions seen earlier in the expansion, but remains sufficient to support ongoing employment growth and keep unemployment relatively low.

For businesses, this environment continues to present both opportunities and challenges. Employee retention may be easier than during the labor shortages that characterized the earlier stages of the post-pandemic expansion, but labor availability remains uneven across industries and occupations. More broadly, this week's labor market data reinforces the view that conditions remain broadly consistent with steady full employment.

Economic trends: Inflation outlook

August personal income and spending

Consumer spending regained momentum in August, while revisions showed income over the last twelve months holding up better than previously estimated. Inflation-adjusted consumer spending rose a strong 0.5% MoM (2.6% YoY), following a 0.2% MoM increase in July. While real disposable income was flat in August, positive revisions to both wages and proprietors' income in prior months pushed annual real disposable income growth about 100 bps higher than previously estimated, to 1.3% YoY. Although income growth has continued to lag spending over the past year, household finances appear to be on somewhat firmer footing than previously thought.



Inflation data were marginally cooler than expected in August. The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures (PCE) price index, increased 0.3% MoM, while core PCE inflation, which excludes food and energy, rose 0.2%. Revisions to the previous twelve months left year-over-year inflation about 30 bps lower than expected, at 3.4% headline and 3.0% core. Much of the annual revision reflected technical changes to the calculation of portfolio management fees, computer software prices, and legal services. Despite the downward revisions, inflation remains well above the Fed's 2% target, with headline inflation still elevated at 3.4% YoY.

Taken together, August's personal income and spending report presented a more favorable economic picture than previously understood, with stronger income growth and lower inflation alongside continued strength in consumer spending. Real consumer spending in the second quarter was revised up to a 3.8% annualized pace and is tracking similarly strong growth in the third quarter, while the improved income picture should provide additional support for household spending going forward.

Consumer confidence: Households grow more uneasy

Consumer confidence fell sharply in September, adding to evidence that households are becoming increasingly cautious about the economic outlook. The Conference Board's Consumer Confidence Index dropped to 81.9 (from 88.6 in August), its lowest reading in over a decade. Unlike last month, when consumers felt better about current conditions than the future, September's decline was broad-based. The Present Situation Index fell to 109.3, while the Expectations Index dropped to 63.6, extending its move further below the 80-threshold historically associated with elevated recession risk.

Labor-market perceptions also weakened notably. The labor-market differential, which measures the share of consumers saying jobs are 'plentiful' minus those saying jobs are 'hard to get,' fell to +1.7 (from +7.5 in August) as fewer consumers viewed jobs as readily available and more reported difficulty finding work. While labor-market indicators continue to point to limited layoffs and ongoing hiring, households appear increasingly skeptical about employment prospects.



Sources: U.S. Bank Economics, Bloomberg, The Conference Board.

Affordability pressures remain another key factor weighing on sentiment. Survey respondents cited higher gasoline prices and the broader cost of living with increasing frequency, while one-year inflation expectations rose to 6.1%. Consumers also became more pessimistic about future business conditions, job prospects, and income growth. Spending intentions softened across many discretionary categories, although vacation plans remained relatively resilient, suggesting households are becoming more selective rather than broadly pulling back.

In our view, September's Conference Board report simply highlights the growing disconnect between sentiment and broader economic fundamentals. Confidence weakened substantially, yet hard economic data continue to show a labor market characterized by steady hiring and limited layoffs. Strong household incomes and continued employment growth should help support consumer spending in the near term. However, rising energy costs, elevated inflation expectations, and weaker perceptions of labor-market conditions suggest households remain uneasy about the economic backdrop.

Data and reports we're watching this week: A quieter week ahead

The economic calendar is relatively quiet this week, with the September Institute for Supply Management (ISM) Services Index on Monday, the August Trade Balance on Tuesday, and the minutes from the Federal Reserve's September Federal Open Market Committee (FOMC) meeting on Wednesday. While the data will provide additional insight into services activity and third-quarter economic growth, the FOMC minutes could shed more light on policymakers' views surrounding their unanimous decision to raise rates in September.

Monday’s ISM Services report is expected to show that the services sector continued to expand at a healthy, albeit slightly slower, pace in September. We expect the index to edge down to 55.2 from 55.4 in August, remaining comfortably above the 50 level separating expansion from contraction. Of particular interest will be the prices paid component, which climbed to 72.6 in August and has remained above 60 for 21 consecutive months. Continued elevated price pressures would reinforce concerns about persistent services inflation and support the Fed’s current hawkish stance.

On Tuesday, we expect the U.S. trade deficit to widen to \$95.0 billion in August from \$88.6 billion in July. The advance report showed the goods deficit widening sharply to \$132.6 billion as imports increased considerably faster than exports, with the increase in imports likely driven by continued AI investment. Tuesday’s more comprehensive report will incorporate services trade and provide a clearer picture of the overall trade balance. A wider deficit could put some downward pressure on third-quarter GDP growth, although stronger inventory accumulation could offset some of the drag from net exports.

Finally, Wednesday’s release of the September FOMC meeting minutes should provide additional detail on policymakers’ unanimous decision to raise the federal funds rate by 25 bps. We expect the discussion to reveal broad concern about persistent inflation and support for further policy tightening. The September Summary of Economic Projections showed a median year-end federal funds rate of 4.1%, consistent with another 25-basis-point increase this year, while the distribution of projections indicated that most participants anticipated additional tightening. The minutes may provide greater insight into how broadly those views were shared and what policymakers will be looking for in upcoming data as they consider the timing and extent of further rate increases.

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 5 through October 9						
Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
10/5/2026	8:45 a.m.	S&P Global US Services PMI	Sep F	58.7	58.7	58.7
		S&P Global US Composite PMI	Sep F			58.4
	9 a.m.	ISM Services Index	Sep	55.2	55.2	55.4
10/6/2026	7:30 a.m.	Trade Balance	Aug	-95.0	-89.8	-88.6
10/7/2026	1 p.m.	FOMC minutes	16-Sep			
	2 p.m.	Consumer Credit	Aug	17.0	15.0	18.1
10/8/2026	7:30 a.m.	Initial Jobless Claims	3-Oct	210.0		197.0
	9 a.m.	Wholesale Inventories (MoM)	Aug F			0.7
10/9/2026	9 a.m.	U. Mich. Consumer sentiment	Oct P	47.9	48.0	48.1

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 10/2/2026.

Federal Open Market Committee (FOMC) Speaker Calendar

Oct. 6, 8:05 a.m.: Williams (New York Fed/Voter)

Oct. 6, 6 p.m.: Logan (Dallas Fed/Voter)

Oct. 8, 12:40 p.m.: Musalem (St. Louis Fed/Non-Voter)

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