WEEKLY ECONOMIC OUTLOOK

Data-driven insights from the U.S. Bank Economic Research Group | October 30, 2026

THE WEEK'S ECONOMY AT A GLANCE

Economy keeps on keeping on

The U.S. economy keeps finding ways to push through the headwinds. Consumer spending and business investment powered another solid quarter of growth, even as higher borrowing costs continued to weigh on housing and other rate-sensitive parts of the economy. But that resilience is becoming more costly to sustain, with stubborn inflation eroding household purchasing power and keeping pressure on the Federal Reserve to tighten further. Overall, while this week's data showed the economy remains on solid footing, the longer inflation and interest rates stay elevated, the more difficult it may become for households and businesses to sustain the current pace of growth.

What this means for business: *Strong underlying demand remains supportive for revenues and investment, but resilience comes with tradeoffs. Higher borrowing costs and persistent price pressures are likely to keep firms selective about capital deployment, even as AI-related expenditure continues to provide a powerful source of growth.*



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ECONOMIC DATA OF THE WEEK

4.9%

Real final sales to private domestic purchasers (a clean measure of demand from U.S. consumers and businesses that excludes inventories, trade, and government spending from GDP) rose at a 4.9% annualized pace in the third quarter, accelerating from an already-strong 4.6% increase in Q2. Together, the unusually strong back-to-back readings underscore just how much momentum remains beneath the GDP headline, despite higher borrowing costs and other headwinds.

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ECONOMIC REPORT OF THE WEEK

3Q GDP

The strength in underlying demand helped propel the broader economy to another solid quarter. Real GDP increased at a 3.4% annualized pace in the third quarter, accelerating from 2.2% in Q2. Consumer spending remained the primary engine of growth, rising 3.8% for a second consecutive quarter, while investment and government spending also contributed. Those gains were partly offset by weaker exports and a sharp increase in imports.

Business investment was particularly strong, although increasingly concentrated in technology-related spending. Nonresidential fixed investment surged 12.7% annualized, with information-processing and other equipment associated with the AI buildout providing an important boost, while residential investment fell 3.3% amid persistently high borrowing costs. The contrast highlights an increasingly important feature of the expansion, as businesses continue to invest aggressively in technology and capacity even as higher interest rates weigh more heavily on housing and other rate-sensitive parts of the economy.

Taken together, the report points to an economy that carried substantial momentum through the third quarter. Consumer spending remains resilient, business investment is providing an increasingly important source of growth, and underlying private-sector demand remains remarkably strong despite higher borrowing costs. The result is an economy that continues to absorb a higher-rate environment with surprisingly little loss of momentum, even as that strength remains increasingly influenced by the AI investment cycle.

Chief economist quote of the week

"The economy keeps clearing the hurdles in front of it, but each one seems to come at a higher cost. For now, consumers and businesses just keep keeping on.

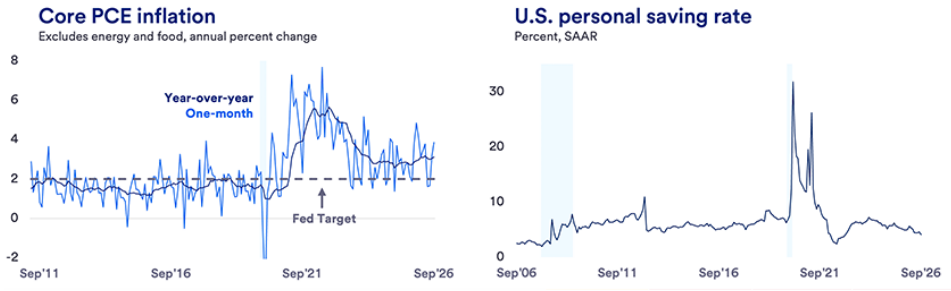
***Beth Ann Bovino**,*
Chief Economist, U.S. Bank

Economic trends: Inflation outlook

Consumers keep spending, but inflation takes a bigger bite

The strong third-quarter growth picture came with an important caveat for households, as real consumer spending momentum softened considerably by September. Nominal spending still rose 0.5% during the month, but after accounting for higher prices, real spending was essentially unchanged. Personal income increased just 0.2%, while real disposable income fell 0.3%, suggesting households entered the fourth quarter with considerably less momentum than the quarterly figures alone imply.

Inflation was responsible for much of that squeeze. Headline PCE prices rose 0.5% month-over-month in September and 3.6% from a year earlier, driven in part by higher energy costs. Core PCE inflation was also firm, increasing 0.3% for the month and edging up to 3.1% year-over-year. Put simply, households spent more dollars in September without purchasing meaningfully more goods and services. With spending continuing to outpace income, the personal saving rate fell to 3.8%, leaving consumers with a thinner cushion against persistently high prices and borrowing costs.



Sources: U.S. Bank Economics, Bloomberg, U.S. Bureau of Economic Analysis

For now, the September slowdown looks more like a constraint on consumer resilience than an end to it. Household spending remains an important source of economic growth, but softer real income gains, a lower saving rate, and elevated inflation make maintaining the recent pace increasingly difficult. That combination also captures the challenge facing the Federal Reserve. Demand remains resilient enough to support growth, while inflation is still running too high to give policymakers much confidence that the job is finished.

Economic trends: Monetary policy

Fed pauses, but the inflation fight isn't over

The combination of stronger growth and less reliable inflation progress was also at the center of this week's Federal Reserve meeting. The FOMC (Federal Open Market Committee) left its target range unchanged at 3.75%–4.00%, pausing after September's 25-basis-point increase. The 10–2 decision was not unanimous, however, with Governor Lisa Cook and Cleveland Fed President Beth Hammack favoring another quarter-point increase. The statement also upgraded its assessment of economic activity from expanding at a 'solid' pace to a 'strong' pace, while continuing to describe inflation as elevated and labor-market conditions as stable.

Chair Warsh characterized the pause as an opportunity to gather more information, not a retreat from the Fed's inflation objective. He said the period directly ahead should provide greater clarity about the appropriate policy stance, particularly as September's rate increase begins to work through financial and credit conditions. Those conditions have tightened for some households and businesses, but Warsh stopped short of calling them tight. He also emphasized that stronger productivity and capital investment may be lifting the economy's capacity to grow, reducing the need to restrain activity aggressively. Even so, Warsh stressed that inflation has exceeded the Fed's objective for nearly six years and reiterated that the Committee "will deliver price stability."

If anything, Thursday's GDP and inflation data make the Fed's balancing act even clearer. Growth remains strong enough to withstand additional restraint, but inflation has not improved enough for policymakers to step away. For now, that argues for patience between moves rather than an end to tightening. We continue to expect 25-basis-point increases in December and March, bringing the federal funds target range to 4.25%–4.50%, with the risk of additional tightening if economic resilience continues to outpace progress on inflation.

Economic trends: Economic trends: Business cycle indicators

Confidence rebounds, but consumers remain cautious

Resilience is also beginning to show up in how consumers view the economy, although households are hardly declaring that everything is fine. The Conference Board's Consumer Confidence Index jumped 7.5 points to 91.7 in October, well above expectations and reversing much of September's decline. The improvement was broad-based, with consumers feeling better about current conditions, the outlook, and the labor market, while near-term inflation expectations eased. Lower gasoline prices likely provided some relief as prices at the pump retreated from their mid-September peak.

Still, better is not the same as good. Confidence remains subdued by historical standards, and the Expectations Index, despite rebounding to 72.6, remains below the 80-threshold historically associated with elevated recession risk. Consumers also continue to express frustration with food and energy prices, while the share saying jobs are "hard to get" remains elevated. Perhaps more telling, plans to buy homes and autos edged lower, while intentions to spend on other big-ticket purchases softened.



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

Housing offers perhaps the clearest example of that caution. New home sales came in better than expected in September but still declined slightly from August as elevated mortgage rates continue to constrain demand. Builders have responded with smaller homes, price cuts, rate buydowns, and other incentives to improve affordability, but high financing costs remain a formidable obstacle. Housing remains a notable exception to an economy otherwise supported by resilient consumer spending and business investment.

Bottom line: October's rebound narrows, but doesn't close, the gap between how consumers feel and what they are doing. Households remain uneasy about prices, employment prospects, and major purchases, yet spending continues to hold up alongside solid income growth and low unemployment. For now, that argues against reading subdued confidence as a recession signal. But housing shows the limits of that resilience: the longer price pressures and borrowing costs remain elevated, the more likely today's caution is to translate into greater selectivity in household spending.

Economic trends: The week ahead

Data and reports we're watching this week: Labor market back in focus

The labor market takes center stage this week, with the September Job Openings and Labor Turnover Survey (JOLTS) due Tuesday and the October Employment Report on Friday. Tuesday also brings the October ISM Manufacturing Index, while several Federal Reserve officials are scheduled to speak following last week's FOMC decision. The midterm elections on Tuesday will also bear watching as investors assess what the results could mean for the fiscal and broader policy outlook. Together, the week's developments should provide an important update on labor demand, manufacturing activity, policy, and the broader economic outlook.

Tuesday's JOLTS report is expected to show job openings holding relatively steady at 7.10 million in September, compared with 7.08 million in August. We also expect the quits and layoffs rates to remain unchanged at 1.9% and 1.0%, respectively. Subdued quits alongside low layoffs would remain consistent with a 'low-hire, low-fire' labor market characterized by limited worker turnover rather than widespread weakness. Because JOLTS tracks job openings, hires and separations, it provides a useful gauge of labor demand beyond monthly payroll growth.

Also Tuesday, we expect the **ISM Manufacturing Index** to edge up to 54.7 in October, remaining comfortably above the 50-threshold separating expansion from contraction. Recent regional Fed surveys have generally pointed to continued strength in factory activity. Particular attention will be paid to the prices-paid component, which jumped to 77.9 in September from 71.1 in August. Another elevated reading would signal continued input-cost pressures and add to concerns that inflation remains persistent.

The week's main event arrives on Friday with the **October Employment Report**. We expect nonfarm payrolls to increase by a modest 50,000, an improvement from September, while the unemployment rate holds steady at 4.2%. Healthcare and social assistance are likely to account for much of the increase, continuing a recent pattern in which job gains have become increasingly concentrated in a relatively narrow set of industries. A report broadly in line with our forecast would reinforce the picture of a labor market that remains stable, with subdued hiring but few signs of broad-based job losses.

Fed communications will also bear watching following last week's decision to leave rates unchanged. Cleveland Fed President Beth Hammack, who dissented in favor of another rate increase at the October meeting, is scheduled to speak Thursday, while New York Fed President John Williams participates in a discussion Friday. Their remarks could provide additional insight into how officials are thinking about the October pause and the timing and pace of further tightening.

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 - November 2 through November 6

Date	Time (CT)	Release	For	USB Econ	Consensus	Previous
11/2/2026	8:45 a.m.	S&P Global US Manufacturing PMI	Oct F			56.0
	9 a.m.	ISM manufacturing	Oct	54.7	54.7	54.5
		Construction spending (MoM)	Sep	0.5	0.5	0.9
11/3/2026	9 a.m.	JOLTS job openings (000)	Sep	7100	7100	7079
		Factory orders (MoM)	Sep	1.0	1.1	0.1
		Durable goods orders (MoM)	Sep F			1.8
		Durable goods ex. transportation (MoM)	Sep F			0.5
		Capital goods orders nondef ex. aircraft	Sep F			0.5
11/4/2026	7:15 a.m.	ADP employment change (000)	Oct	60.0	70.0	90.0
	7:30 a.m.	Trade balance	Sep	-108.0	-107.9	-105.6
	8:45 a.m.	S&P Global US Services PMI	Oct F			57.9
		S&P Global US Composite PMI	Oct F			57.6
	9 a.m.	ISM Services Index	Oct	54.7	54.7	54.9
11/5/2026	7:30 a.m.	Nonfarm productivity (QoQ)	3Q P	3.0	3.0	1.4
		Unit labor costs (QoQ)	3Q P	1.5	1.5	1.2
		Initial jobless claims	31-Oct	198		194
11/6/2026	7:30 a.m.	Employment report (000)	Oct	50	55	29
		Unemployment rate (%)	Oct	4.2	4.2	4.2
	9 a.m.	U. Mich. Consumer Sentiment	Nov P	47.5	47.3	48.0
	2 p.m.	Consumer credit	Sep	12.0	12.0	8.3

Sources: Bloomberg, U.S. Bank Economics. Consensus estimates as of Friday, 10/30/2026.

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